

the Civil War and their dependents; to the Committee on Invalid Pensions.

6717. By Mr. MONTAGUE: Petition of citizens of Virginia, favoring an increase in Civil War pensions; to the Committee on Invalid Pensions.

6718. By Mr. MOONEY: Petition from the Ladies Social Union, Archwood Congregational Church, Cleveland, Ohio, urging peaceful settlement of the differences between the Government of the United States and the Government of Mexico and Nicaragua; to the Committee on Foreign Affairs.

6719. By Mr. MOORE of Ohio: Petition favoring the passage of House bill 10311, known as the Sunday rest bill for the District of Columbia; to the Committee on the District of Columbia.

6720. Also, petition favoring legislation for the further relief of Civil War veterans and widows of veterans; to the Committee on Invalid Pensions.

6721. By Mr. O'CONNELL of New York: Petition of the New York State Federation of Labor, favoring the passage of Senate bill 3170, longshoremen compensation bill; to the Committee on the Judiciary.

6722. Also, petition of George C. Diekman, president, New York State Pharmaceutical Association, protesting against legislation requiring label to show distillers' price to retail pharmacists and restricting manufacture of new whisky to six distillers; to the Committee on Ways and Means.

6723. Also, petition of veterans of the United States Veterans' Hospital, Livermore, Calif., favoring the passage of House bill 16019; to the Committee on World War Veterans' Legislation.

6724. Also, petition of the Board of Trade of Kansas City, Mo., opposing the passage of the McNary-Haugen bill; to the Committee on Agriculture.

6725. Also, petition of the United Mine Workers of America, in convention assembled, favoring the investigation thoroughly of the relation of freight-rate discrimination to the extreme depression of the coal industry in Indiana, Ohio, Pennsylvania, and Illinois and the adequacy of existing law to afford relief; to the Committee on Ways and Means.

6726. By Mr. PATTERSON: Memorial of the Private Soldiers and Sailors' Legion of the United States, protesting against the passage of House bill 4548 and Senate bill 3027, providing for the retirement of disabled emergency officers; to the Committee on World War Veterans' Legislation.

6727. Also, memorial of the New Jersey Branch of the Catholic Central Verein of America, petitioning for repeal of paragraph 11 of the immigration act of July 1, 1924; to the Committee on Immigration and Naturalization.

6728. By Mr. REID of Illinois: Petition of citizens of Elgin, Ill., urging passage of Civil War pension legislation; to the Committee on Invalid Pensions.

6729. By Mr. SNELL: Petition of chamber of commerce, Amsterdam, N. Y., against proposed St. Lawrence waterway; to the Committee on Rivers and Harbors.

6730. By Mr. STRONG of Pennsylvania: Petition of citizens of Indiana, Pa., also of Jefferson County, Pa., urging immediate action on the pending bill to provide an increase of pension for Civil War veterans and widows of veterans; to the Committee on Invalid Pensions.

6731. Also, petition of citizens of Indiana, Pa., against compulsory Sunday observance; to the Committee on the District of Columbia.

6732. By Mr. SWARTZ: Petition of W. J. L. Haines and others, of Mechanicsburg, Pa., favoring early consideration of pension legislation for the further relief of Civil War veterans and widows of veterans; to the Committee on Invalid Pensions.

6733. Also, petition of citizens of Harrisburg, Pa., favoring consideration of further pension legislation for Civil War veterans and widows of veterans; to the Committee on Invalid Pensions.

6734. By Mr. SWING: Petition of certain residents of San Diego, Calif., urging the passage by Congress of a bill granting increased pensions to Civil War veterans and the widows of Civil War veterans; to the Committee on Invalid Pensions.

6735. Also, petition of certain residents of California, urging the passage by Congress of a bill granting increased pensions to Civil War veterans and the widows of Civil War veterans; to the Committee on Invalid Pensions.

6736. By Mr. TEMPLE: Petition of a number of residents of Greene County, Pa., in support of legislation increasing rate of pension to veterans of the Civil War and widows of veterans of the Civil War; to the Committee on Invalid Pensions.

6737. Also, testimony in support of House bill 17107, granting a pension to Margaret Crawford; to the Committee on Invalid Pensions.

6738. By Mr. THATCHER: Petitions of citizens of Louisville, Ky., urging passage of Civil War pension bill for relief

of Civil War veterans and widows of veterans; to the Committee on Invalid Pensions.

6739. By Mr. TINKHAM: Petition of National Lincoln-Douglass Colored American Conference, protesting against being denied civil and political rights in violation of section 1, article 14, of the amendments to the Federal Constitution; to the Committee on the Judiciary.

6740. By Mr. TOLLEY: Petition of 54 citizens of Fish Eddy, Delaware County, N. Y., for an immediate liberalization of Civil War pension laws; to the Committee on Invalid Pensions.

6741. By Mr. VOIGT: Petition of 123 citizens of Portage, Wis., urging Civil War pension legislation; to the Committee on Invalid Pensions.

6742. By Mr. WELSH of Pennsylvania: Petition of the employees of the United States post office and courthouse at Philadelphia, Pa., in support of House bill 359 and Senate bill 1077, to abolish the personnel classification board and transfer its duties to the Civil Service Commission; to the Committee on the Civil Service.

6743. By Mr. WILLIAMSON: Petition of Dora F. Rathburn, Sarah M. Johnson, Mrs. Flora Williams, and sundry other persons, praying for an increase of pension for soldiers and widows of soldiers who served in the Civil War; to the Committee on Invalid Pensions.

6744. By Mr. ZIHLMAN: Petition of citizens of Frederick, Md., urging immediate action and support of the Civil War pension bill to provide relief for needy veterans and widows of veterans; to the Committee on Invalid Pensions.

SENATE

TUESDAY, February 15, 1927

The Chaplain, Rev. J. J. Muir, D. D., offered the following prayer:

Gracious God, Thou hast made us for Thyself, and Thou hast given unto us a soul which craves after Thee. We humbly beseech Thee this morning that whatever may be the uncertainties of life we may each day realize the necessity of earnestness of purpose and fulfill each one in his capacity the great essentials of high endeavor. Lord, our God, be with us. Enable us to understand the times and know what the people need. We ask in Jesus Christ's name. Amen.

The Chief Clerk proceeded to read the Journal of yesterday's proceedings when, on request of Mr. CURTIS and by unanimous consent, the further reading was dispensed with and the Journal was approved.

MESSAGE FROM THE HOUSE

A message from the House of Representatives, by Mr. Chaffee, one of its clerks, announced that the House had passed without amendment the bill (S. 5259) granting permission to Maj. Charles Beatty Moore, United States Army, to accept the following decorations, namely: The Legion of Honor tendered him by the Republic of France and the officers' cross of the order Polonia Restituta, tendered him by the Republic of Poland.

ENROLLED BILLS SIGNED

The message also announced that the Speaker had affixed his signature to the following enrolled bills, and they were thereupon signed by the Vice President:

H. R. 1231. An act for the relief of Mary Moore;

H. R. 3432. An act for the relief of Joel C. Clore; and

H. R. 9319. An act to authorize certain officers of the United States Navy to accept from the Republic of Chile the Order of Merit, first class, and the Order of Merit, second class.

PETITIONS AND MEMORIALS

The VICE PRESIDENT laid before the Senate the following joint resolution of the Legislature of the State of California, which was referred to the Committee on the Judiciary:

FORTY-SEVENTH SESSION CALIFORNIA LEGISLATURE,

Assembly Chamber, Sacramento.

Assembly Joint Resolution 2, relating to the time when Members elected to Congress shall take their seats—adopted by the Legislature of the State of California, January 21, 1927

Whereas under the existing conditions, newly elected Members of Congress do not take their seats in Congress, unless at a special session, until the elapse of more than a year after their election; and

Whereas Members of Congress who are not reelected continue to serve and vote for their constituents for the duration of the short session of Congress although their successors have been elected; and

Whereas such conditions are not productive of the best interests of the people of the United States: Therefore be it

Resolved by the Assembly and Senate of the State of California, jointly, That the Legislature of the State of California earnestly peti-

tions Congress to submit a constitutional amendment to the several States which would provide that Members of Congress should take their seats within a short time after their election; and be it further

Resolved, That the chief clerk of the assembly is hereby directed to send copies of this resolution to the President and Vice President of the United States, to each Member of the Senate and House of Representatives of the United States and to the governors of each of the several States.

EDGAR C. LEVEY, *Speaker*.

Attest:

ARTHUR A. OHNIMUS, *Chief Clerk*.

The VICE PRESIDENT also laid before the Senate the following joint resolution of the Legislature of the State of Montana, which was referred to the Committee on the Judiciary:

STATE OF MONTANA,
OFFICE OF THE GOVERNOR,
Helena, February 11, 1927.

The honorable the VICE PRESIDENT,
Senate Chamber, Washington, D. C.

SIR: I have the honor to transmit herewith certified copy of House Joint Resolution No. 2, passed by the twentieth Legislative Assembly of the State of Montana, ratifying an amendment to the Constitution of the United States, granting to the Congress of the United States the power to limit, regulate, and prohibit the labor of persons under 18 years of age.

I have the honor to be, sir,
Yours very truly,

J. E. ERICKSON, *Governor*.

UNITED STATES OF AMERICA,
State of Montana, ss:

I, C. T. Stewart, secretary of state of the State of Montana, do hereby certify that the following is a true and correct copy of an act entitled "A resolution ratifying an amendment to the Constitution of the United States, granting to the Congress of the United States the power to limit, regulate, and prohibit the labor of persons under 18 years of age," enacted by the twentieth session of the Legislative Assembly of the State of Montana and approved by J. E. Erickson, governor of said State, on the 11th day of February, 1927.

In testimony whereof I have hereunto set my hand and affixed the great seal of said State.
Done at the city of Helena, the capital of said State, this 11th day of February, A. D. 1927.

[SEAL.]

C. T. STEWART,
Secretary of State.
By CLIFFORD L. WALKER,
Deputy.

House Joint Resolution 2, introduced by Curran, ratifying an amendment to the Constitution of the United States, granting to the Congress of the United States the power to limit, regulate, and prohibit the labor of persons under 18 years of age

To the honorable Senate and House of Representatives of the United States in Congress assembled:

Whereas it has been resolved by the Senate and House of Representatives of the Sixty-eighth Congress of the United States in Congress assembled (two-thirds of each House concurring therein) that the following article be proposed to the legislatures of the several States as an amendment to the Constitution of the United States, which when ratified by three-fourths of the said legislatures shall be valid as part of said Constitution, namely:

"ARTICLE —

"SECTION 1. The Congress shall have power to limit, regulate, and prohibit the labor of persons under 18 years of age.

"SEC. 2. The power of the several States is unimpaired by this article except that the operation of State laws shall be suspended to the extent necessary to give effect to legislation enacted by the Congress": Therefore be it

Resolved by the Senate and House of Representatives of the State of Montana, That the said proposed amendment to the Constitution of the United States of America be, and the same is hereby, ratified by the Legislature of the State of Montana; and further be it

Resolved, That certified copies of this resolution be forwarded by the governor of this State to the Secretary of State at Washington, D. C., and to the presiding officers of each House of the National Congress.

G. T. DAVIS,
Speaker of the House.
W. S. MCCORMACK,
President of the Senate.

Approved February 11, 1927.

J. E. ERICKSON, *Governor*.

Filed February 11, 1927, at 11.05 o'clock a. m.

C. T. STEWART,
Secretary of State.

The VICE PRESIDENT also laid before the Senate the following joint resolution of the Legislature of the State of Nevada, which was referred to the Committee on Public Lands and Surveys:

STATE OF NEVADA, DEPARTMENT OF STATE,
Carson City, Nev., February 10, 1927.

PRESIDENT OF THE SENATE,
Washington, D. C.

DEAR MR. PRESIDENT: In accordance with the instructions of the Legislature of the State of Nevada, I herewith inclose certified copy of Senate Joint Resolution No. 4.

Yours truly,

W. G. GREATHOUSE,
Secretary of State.

Senate joint resolution memorializing the Congress of the United States in opposition to the passage of H. R. 16168, a bill to authorize the issuance of patent for lands containing deposits of copper and associated minerals, and for other purposes

Whereas there is now pending before the Congress of the United States a certain bill or act known as H. R. 16168, authorizing the issuance of patent for lands containing deposits of copper and associated minerals, and for other purposes; and

Whereas it appears from the terms of said bill that the benefits intended to be conferred upon bona fide prospectors, miners, and mining companies engaged in the development of that industry might easily be usurped by designing land grabbers seeking to exploit the resources of our State to the detriment of those justly entitled thereto; and

Whereas we fear that the passage of this bill will be inimical to the mining industry of the United States: Be it

Resolved by the Senate and Assembly of the State of Nevada, That we respectfully memorialize and petition the Congress of the United States to oppose and defeat the passage of said H. R. 16168; and be it further

Resolved, That copies of this resolution, duly authenticated, be transmitted forthwith by the secretary of state of the State of Nevada to the President of the United States Senate and to the Speaker of the House of Representatives and to each of our Senators and to our Representative in Congress.

MORLEY GRISWOLD,
President of the Senate.
V. R. MERIALDO,
Secretary of the Senate.
DOUG. H. TANDY,
Speaker of the Assembly.
JOHN W. WRIGHT,
Chief Clerk of the Assembly.

STATE OF NEVADA,
Department of State, ss:

I, W. G. Greathouse, the duly elected, qualified, and acting secretary of state of the State of Nevada, do hereby certify that the foregoing is a true, full, and correct copy of the original Senate Joint Resolution 4 now on file and of record in this office.

In witness whereof, I have hereunto set my hand and affixed the great seal of state, at my office, in Carson City, Nev., this 10th day of February, A. D. 1927.

[SEAL.]

W. G. GREATHOUSE,
Secretary of State.

Mr. GILLET presented the petition of the National Lincoln-Douglass Colored American Conference, which was referred to the Committee on the Judiciary and ordered to be printed in the RECORD, as follows:

Lincoln-Douglass petition to the Senate of the United States Congress by the National Lincoln-Douglass Colored American Conference, February 14, 1927

The honorable Members of the Senate:

For a long time colored American citizens of the United States have been especially denied civil and political rights, in violation of section 1, Article XIV, of the amendments to the Federal Constitution, which states that no State shall "deny to any person within its jurisdiction the equal protection of the laws."

These civil and political disabilities imposed upon our people have increased as we have receded from the Civil War, a war brought to the happy consummation of freedom and civil equality by President Lincoln, the Emancipator, and Frederick Douglass, the colored abolitionist—they have increased, although we have made great progress in many directions.

Chief among these disabilities is the wholesale disfranchisement of millions of our people who are without voice or vote in the selection of their representatives to the Federal and State legislatures, which they are taxed to support.

Deprived of the ballot and unable to register their will at the ballot box, they have become the prey of lawless men and communities, and frequently the victim of mob murder.

Our people live in a state of uncertainty and of dread in many communities, due to the fact that the corrective power of Congress to enact remedial legislation has thus far failed to materialize.

If the Government of the United States was one-sided at and after its creation in 1789, in so far as it related to people of color, most of whom were held as slaves at the time, by the enactment of the thirteenth, fourteenth, and fifteenth amendments to the Federal Constitution, its one-sidedness was corrected and national practices for a time squared with national professions and pretensions.

The Union had been defended by many brigades of colored soldiers, enlisted by President Lincoln, recruited by Frederick Douglass, saviors of the Republic, and the great political leaders of the period rounded out the Federal Constitution in such manner as to make it conform to the principles set forth in the Declaration of Independence, which they with Lincoln and Frederick Douglass thus retrieved. They established the rights of all men and fixed the power to enforce them.

It is to this power that we appeal.

As we have grown and strengthened our material interests and become a substantial element of the taxpayers, as we have fought and practically destroyed the ignorance and illiteracy forced upon us by slavery, as we have become more valuable to the industrial activities of the Nation, we find our civil and political rights ruthlessly invaded, and instead of being citizens with rights, equal to those enjoyed by all other citizens, we are treated as colonial subjects of an arrogant autocracy. Segregation of colored employees within the Federal civil service at Washington is an illustration of this point.

The laws enacted by several of the States, providing for separate accommodation for colored Americans upon common carriers, were enacted many years ago, and no amount of judicial juggling with this measure will convince any fair-minded person that it does not abridge the privileges and immunities of colored men and women, and that they were not designed to humiliate, embarrass, insult, and degrade those among us who must travel either upon business or pleasure. Our voteless condition in many communities has resulted in inadequate appropriations for public-school education and a great disparity in these appropriations between the white and colored people, very greatly to the advantage of the former. We do not begrudge a single dollar appropriated for the education of white youth. Were it in our power, we would greatly increase these outlays; but recent investigations of the systems of public-school education in several of the States have resulted in disclosing the fact that a disfranchised people can not protect their rights.

Municipal betterments and sanitary precautions, which to-day are regarded as imperative to the health and progress of modern communities, have a strange way of avoiding the residential sections in which large numbers of colored people dwell, own property, and pay taxes thereupon for the benefit of all. This also is due to our weakened political position following general disfranchisement and our exclusion from the authorized forums of legislative debate. Virtual slavery for colored Americans—slavery of a most brutal kind—actually disgraces our country to-day in the form of peonage and forced labor, as another result of this weakened position of a voteless element. Whole families are actually sold into slavery in the pretense of debt.

Our people have been lynched without trial—lynched after trial and acquittal—so long that lynching has here become a chronic social disease, casting a stain upon the Nation throughout the world. The perpetrators of these crimes almost universally go unwhipped of justice—another illustration of the lawlessness which is easily maintained against a voteless people.

Our inability in many communities of the country to enjoy the common recreational facilities freely accorded to all other people is not democracy, nor do these practices square with the amended spirit of the Federal Constitution, which aims at equality and which is buttressed by the words "rights, privileges, or immunities."

We make no partisan appeal to any political party in Congress. Among the signers of this petition are men allied with all political parties, and to all political parties we appeal to give this petition a respectful hearing, to the end that Congress will carry out its duty to provide republican forms of government in every State of the Union and forbidding civil denials or distinctions for race or color in Federal domains or under Federal jurisdiction.

To these ends, and in honor to the memories of Abraham Lincoln and Frederick Douglass at the natal anniversaries of these noble servants of the Republic, we do petition Congress for legislation—

(a) To reduce State representation in the Federal House in proportion to adult disfranchisement;

(b) To forbid denial of accommodation or segregation, by or for race or color, in interstate carriers and in all public places and facilities in Federal property or in other Federal domains;

(c) To more quickly detect and more adequately punish the crime of peonage;

(d) To make mob murder and lynchings a Federal crime; and, finally

(e) To refuse to seat those elected under conditions of disfranchisement because of race and color.

The passions of the Civil War have long since been outlived. A new generation of white and colored men are now working for the upbuild-

ing of the country, and this work will be greatly aided by establishing in every community the law of even-handed justice and by abolishing the evils and injustices which our people suffer and which we have herein set forth.

Respectfully submitted.

W. H. JERNAGIN,
President National Race Congress.
GEORGE A. LARKIN,
Executive Secretary National Race Congress.
H. B. TAYLOR.
J. L. S. HOLLOMAN.
H. T. MEDFORD.
M. R. POWELL.
(Miss) NELLIE QUANDER.
S. A. YOUNG.

Mr. BRUCE presented petitions of sundry citizens of Baltimore, Md., praying for the prompt passage of legislation granting increased pensions to Civil War veterans and their widows, which were referred to the Committee on Pensions.

Mr. WILLIS presented a petition of sundry citizens of Cleveland, Lakewood, and vicinity, in the State of Ohio, praying for the prompt passage of legislation granting increased pensions to Civil War veterans and their widows, which was referred to the Committee on Pensions.

He also presented a memorial of sundry citizens of Mansfield, Galion, Lexington, and vicinity, all in the State of Ohio, remonstrating against the passage of the bill (S. 4821) to provide for the closing of barber shops in the District of Columbia on Sunday, or any other legislation religious in character, which was referred to the Committee on the District of Columbia.

Mr. COPELAND presented resolutions adopted by the board of directors of the Maritime Association of the Port of New York, favoring the passage of Senate bill 3170, the so-called maritime workers compensation bill, with a limitation of \$7,500 as a maximum amount to be paid on any claim for compensation, etc., which were referred to the Committee on the Judiciary.

He also presented letters in the nature of petitions from sundry disabled ex-service men hospitalized at the United States Veterans' Hospital No. 89, Rutland Heights, Mass., praying for the passage of legislation for the benefit of disabled ex-service men, etc., which were referred to the Committee on Finance.

Mr. McLEAN presented a communication in the nature of a petition from the Fairfield County Farm Bureau, of Danbury, Conn., praying for the acceptance of the proposal of the American Cyanamid Co. for the operation of Muscle Shoals, which was referred to the Committee on Agriculture and Forestry.

He also presented a resolution adopted by the Connecticut Botanical Society (Inc.), of New Haven, Conn., favoring the passage of the so-called McNary-Woodruff bill (S. 718), authorizing an appropriation for the purchase of land in Mad River Notch, situated in the town of Waterville, N. H., which was referred to the Committee on Agriculture and Forestry.

He also presented petitions of employees of the Naugatuck Chemical Co., of Naugatuck, and sundry citizens of Waterbury, Ansonia, and Hartford, all in the State of Connecticut, praying for the prompt passage of legislation providing for the control of radio communications, which were ordered to lie on the table.

He also presented a communication in the nature of a petition of the Connecticut Chamber of Commerce (Inc.), of Hartford, Conn., favoring the passage of House bill 8997, permitting the importation of Cuban cigars into the United States in lots of less than 3,000, etc., which was referred to the Committee on Post Offices and Post Roads.

He also presented a letter in the nature of a petition from the Connecticut League of Women Voters (Inc.), of Hartford, Conn., praying for the passage of legislation creating a bureau of customs and a bureau of prohibition in the Treasury Department and placing employees of the Prohibition Unit under the classified civil service, which was ordered to lie on the table.

REPORTS OF COMMITTEES

Mr. SMOOT, from the Committee on Finance, to which was referred the bill (H. R. 16886) to authorize the Director of the United States Veterans' Bureau to make loans to veterans upon the security of adjusted-service certificates, reported it without amendment and submitted a report (No. 1486) thereon.

Mr. McNARY, from the Committee on Agriculture and Forestry, to which was referred the bill (S. 5454) authorizing the establishment of a migratory bird refuge at Bear River Bay, Great Salt Lake, Utah, reported it without amendment and submitted a report (No. 1487) thereon.

Mr. WHEELER, from the Committee on Indian Affairs, to which was referred the bill (S. 5509) to amend section 1 of

the act approved May 26, 1926, entitled "An act to amend sections 1, 5, 6, 8, and 18 of an act approved June 4, 1920, entitled 'An act to provide for the allotment of lands of the Crow Tribe, for the distribution of tribal funds, and for other purposes,'" reported it with an amendment and submitted a report (No. 1488) thereon.

Mr. WALSH of Montana, from the Committee on the Judiciary, to which were referred the following bills, reported them each without amendment and submitted reports thereon:

A bill (S. 4328) to authorize the appointment of an additional judge for the district court of the United States for the northern district of California (Rept. No. 1489); and

A bill (S. 5352) to provide for one additional district judge for the eastern district of Michigan (Rept. No. 1490).

Mr. WILLIS, from the Committee on Territories and Insular Possessions, to which was referred the bill (S. 5006) to repeal the last proviso of section 7 of an act to establish the Mount McKinley National Park, in the Territory of Alaska, approved February 26, 1917, reported it without amendment and submitted a report (No. 1491) thereon.

Mr. ODDIE, from the Committee on Naval Affairs, to which were referred the following bills, reported them each without amendment and submitted reports thereon:

A bill (S. 5249) to authorize the Secretary of the Navy to develop an ammunition depot at Hawthorne, Nev., and for other purposes (Rept. No. 1492); and

A bill (S. 5511) authorizing the President to appoint Capt. Reginald Rowan Belknap, United States Navy, retired, a rear admiral on the retired list of the Navy (Rept. No. 1493).

ENLARGING AND RELOCATING THE BOTANIC GARDEN (S. DOC. NO. 208)

Mr. FESS, from the Joint Committee on the Library, submitted, pursuant to law, a report relative to the enlargement and relocation of the United States Botanic Garden, which was referred to the Committee on the Library and ordered to be printed.

PENSIONS TO VETERANS OF THE SPANISH WAR, ETC.

Mr. FLETCHER. I introduce a bill and ask its reference to the Committee on Pensions. I ask that the accompanying papers be printed in the Record, in order that the bill may be understood.

The bill (S. 5712) to amend an act granting pensions and increase of pensions to certain soldiers and sailors of the war with Spain, the Philippine insurrection, or the China relief expedition, to certain maimed soldiers, to certain widows, minor children, and helpless children of such soldiers and sailors, and for other purposes, approved May 1, 1926, was read twice by its title and referred to the Committee on Pensions.

The VICE PRESIDENT. Without objection, the accompanying papers will be printed in the Record.

The accompanying papers were referred to the Committee on Pensions and ordered to be printed in the Record, as follows:

DEPARTMENT OF THE NAVY,
OFFICE OF THE SECRETARY,
Washington, February 12, 1927.

The Hon. DUNCAN U. FLETCHER,
United States Senate, Washington, D. C.

MY DEAR SENATOR: Replying further to your letter of December 13, 1926, relative to amending the law so as to include for purposes of a pension men who enlisted in the Navy in the war with Spain to serve for a period of 90 days or longer, but who were discharged before the expiration of 90 days, and requesting my views, I have the honor to advise you as follows:

The Navy Department considers that the act of June 5, 1920 (41 Stat. 982), and the other amendatory acts since then on the same subject, are, when compared with the Army, an injustice to the men who volunteered and served in the United States Navy during the war with Spain and who did not have an opportunity to serve the required 90 days.

As shown by General Order No. 130, a copy of which is attached, the Army granted furloughs to all men who served in the War with Spain before they were mustered out of service. Those who served beyond the limits of the United States were granted 60 days' furlough and those who never served beyond the limits of the United States were granted 30 days' furlough. By section 5 of the act of September 1, 1922 (42 Stat. 835), this order gives the Army personnel 60 and 30 days' service which may be added to their active service in computing the 90 days' service required by the law for a pension.

The men who volunteered and served in the United States Navy during the war with Spain were discharged immediately after hostilities ceased and the protocol was negotiated and signed by Spain and consequently, as they were not granted leaves of absence or furloughs of 60 or 90 days similar to the Army, they lost the 60 and 30 days' service that was allowed the Army personnel.

Many requests for pensions have been received by the Navy Department from men who volunteered and served in the Navy during the war with Spain and who, because of discharge before the expiration of 90 days, have had their claims disallowed.

There have been also requests for pensions from men who were members of the crews of the ships operated by private navigation companies that were taken over by the Navy Department during the war with Spain. Two of these—the steamship *New York*, renamed the U. S. S. *Harvard*, and the steamship *Paris*, renamed the U. S. S. *Yale*—operated under the Navy Department from April 26, 1898, until September 2, 1898. These vessels sailed from the port of New York on April 28, 1898, for Cuban waters and remained in that vicinity until June, 1898. The men who had signed as members of the crew of the steamship *New York* and the steamship *Paris* did not execute enlistment papers in the United States Navy until their return to Hampton Roads on or about June 22, 1898. They were discharged September 3, 1898, and were allowed credit for naval service only from the date they signed the enlistment papers.

If any legislation is introduced to place those sailors and marines who were not permitted to serve 90 days in the war with Spain on account of their early discharge, on a parity with former soldiers who performed the same amount of actual service, the Navy Department before making recommendation thereon would have to submit it to the Bureau of the Budget in order to ascertain whether such legislation would come within the financial program of the President.

Sincerely yours,

CURTIS D. WILBUR,
Secretary of the Navy.

[General Orders, No. 130]

WAR DEPARTMENT,
ADJUTANT GENERAL'S OFFICE,
Washington, August 29, 1898.

The following additional instructions amendatory of those contained in General Orders, No. 124, August 20, 1898, from this office, are published for the information and guidance of all concerned:

1. Except the officers and men required by paragraph 5 for the necessary guard detail, etc., leaves of absence for 60 days and furloughs for the same period will be granted all officers and enlisted men of organizations which have served beyond the limits of the United States, and 30 days to officers and men of organizations which have not served beyond the limits of the United States when such organizations are ordered to be mustered out of service.

2. Such leaves of absence and furloughs will be granted by the commanding officers after organizations have arrived at State rendezvous, all to take effect on one date for 30 days or 60 days, as the case may be, and all officers and men must without fail report at the rendezvous on the thirtieth or sixtieth day thereafter. Any officer or man failing to so report will be considered and reported as a deserter, unless prevented from doing so by sickness, which must be satisfactorily explained by the certificate of a reputable physician and the fact noted on the rolls.

3. Before organizations are granted furloughs, the preparation for muster out, as required by General Orders, No. 124, August 20, 1898, from this office, will, in view of the foregoing, be carried out only so far as relates to the inspection and correction of records; inspection and transfer of such public property as may no longer be required; the preparation and comparison of property returns; the steps necessary to secure certificates of nonindebtedness, and for the return of all absentees, etc.

4. When possible all returns and papers relating to the muster out of organizations will be prepared during the period of furlough.

5. Each commanding officer, prior to the departure of his officers and men, will make arrangements necessary to verify and protect all public property pertaining to his command during the period of absence, and place the same under proper guard detailed from his command for the purpose. He will notify The Adjutant General of the Army of his arrival at rendezvous, and at the earliest possible moment the date on which leaves and furloughs expire.

6. In preparing muster-out rolls, the number of days while on furlough will be stated under the heading on the roll "Subsistence, number of days," and the paymaster in the "pay account" on the roll will change the heading "For horses and equipments" to "Commutations for furlough rations," and credit each man at the rate of 25 cents per day for the number of days due and pay the same. The amount so paid for commutation of rations by the pay department will be refunded from the appropriation made for the subsistence department.

7. Mustering officers are empowered to administer oaths in all matters pertaining to the muster out of volunteers.

8. As soon as practicable the usual monthly pay rolls will be made out for the month preceding departure on furlough, and sent to the chief paymaster of the military department in which the organiza-

tion's rendezvous is situated. Upon these rolls alone can the officers and enlisted men be paid prior to departure on leave or furlough.

By order of the Secretary of War:

H. C. CORBIN,
Adjutant General.

BILLS AND JOINT RESOLUTIONS INTRODUCED

Bills and joint resolutions were introduced, read the first time, and, by unanimous consent, the second time, and referred as follows:

By Mr. NEELY:

A bill (S. 5713) granting the authority of Congress to the Kanawha Falls Bridge Co. (Inc.) to construct a bridge across the Kanawha River at Kanawha Falls, Fayette County, W. Va.; to the Committee on Commerce.

By Mr. OVERMAN:

A bill (S. 5714) for the relief of the Charlotte Chamber of Commerce and Capt. Charles G. Dobbins, Army disbursing officer; to the Committee on Claims.

By Mr. BAYARD:

A bill (S. 5715) for the relief of James J. Welsh, Edward C. F. Webb, Francis A. Meyer, Mary S. Bennett, William McMullin, jr., Margaret McMullin, R. B. Carpenter, McCoy Yearsley, Edward Yearsley, George H. Bennett, jr., Stewart L. Beck, William P. McConnell, Emily McL. Higgins, Elizabeth J. Morrow, William B. Jester, Josephine A. Hagan, James H. S. Gam, Herbert Nicoll, Shallcross Bros., E. C. Buckson, Wilbert Rawley, R. Richards Dredging Co.; to the Committee on Claims.

By Mr. WALSH of Massachusetts:

A bill (S. 5716) to amend the World War adjusted compensation act; to the Committee on Finance.

By Mr. MOSES:

A bill (S. 5717) authorizing appropriation of funds for construction of a highway from Red Lodge, Mont., to the boundary of the Yellowstone National Park, near Cooke City, Mont.; to the Committee on Post Offices and Post Roads.

By Mr. CAPPER:

A bill (S. 5718) granting an increase of pension to Emily K. Glunt (with accompanying papers); to the Committee on Pensions.

A bill (S. 5719) authorizing the acquisition of a site for and the construction of a new building for the recorder of deeds, the municipal court, the juvenile court, and for other purposes; to the Committee on the District of Columbia.

By Mr. WATSON:

A bill (S. 5720) granting the consent of Congress to the State of Indiana, its successors and assigns, to construct, maintain, and operate a bridge across the Ohio River, and permitting the State of Kentucky to act jointly with the State of Indiana in the construction, maintenance, and operation of said bridge; to the Committee on Commerce.

By Mr. STEWART:

A bill (S. 5721) granting an increase of pension to Chloe A. Twombly; to the Committee on Pensions.

By Mr. FESS:

A bill (S. 5722) to authorize the construction of new conservatories and other necessary buildings for the United States Botanic Garden; to the Committee on the Library.

By Mr. COPELAND:

A bill (S. 5723) for the relief of Charles F. Bond, receiver of the partnership of Thorp & Bond on a contract for construction work; to the Committee on Claims.

By Mr. HAWES:

A bill (S. 5724) for the purchase of land as a rifle range in Clay County, Mo.; to the Committee on Military Affairs.

By Mr. WADSWORTH:

A bill (S. 5725) to authorize an appropriation to rehabilitate the Picatinny Arsenal in New Jersey; to the Committee on Military Affairs.

By Mr. SWANSON:

A bill (S. 5726) granting the consent of Congress to the James River Bridge Corporation, its successors and assigns, to construct, maintain, and operate bridges across the James River, Chuckatuck Creek, and Nansemond River; to the Committee on Commerce.

By Mr. BROUSSARD:

A bill (S. 5727) to authorize and direct the Secretary of War to accept an act of sale and a C. S. B. dedication of certain property in the city of New Orleans, La., from the board of commissioners of the port of New Orleans, and for other purposes; to the Committee on Military Affairs.

By Mr. WALSH of Montana:

A bill (S. 5728) granting a pension to William Lentz; and

A bill (S. 5729) granting a pension to Almon S. Hortop (with accompanying papers); to the Committee on Pensions.

By Mr. SHIPSTEAD:

A joint resolution (S. J. Res. 161) authorizing the President to invite the Governments of the five Republics of Central America to send plenipotentiaries to a conference to consider plans for the confederation of Central America; to the Committee on Foreign Relations.

By Mr. McNARY:

A joint resolution (S. J. Res. 162) to create a joint congressional commission to study the Muscle Shoals project; to the Committee on Agriculture and Forestry.

CLAIMS COMMISSION BETWEEN THE UNITED STATES AND MEXICO

Mr. BORAH. Mr. President, I offer a resolution which I ask may be read and referred to the Committee on Foreign Relations.

The resolution (S. Res. 352) was read and referred to the Committee on Foreign Relations as follows:

Whereas it is provided by Article VI of the general claims convention, concluded between the United States and Mexico on September 8, 1923, that the commission created pursuant thereto to pass on claims to which the convention relates shall hear, examine, and decide within three years from the date of its first meeting all claims filed with it which arose prior to the signing of the convention, which period of time will expire on August 30, 1927; and

Whereas Article VIII of the convention provides that all such claims filed with the commission shall be considered and treated as fully settled, barred, and thenceforth inadmissible provided they have been heard and decided by the commission; and

Whereas it has been brought to the knowledge of the Senate that it will not be possible for the commission to hear, examine, and decide in the manner contemplated by the convention within the time specified by Article VI of the convention all the claims which have been filed with said commission in accordance with the terms of the convention; and

Whereas it is in the interest of both Governments fully to hear, judicially determine, and settle all such claims: Therefore be it

Resolved, That the President be, and is hereby, requested, in his discretion, to negotiate and conclude with the Mexican Government such agreement as may be necessary and appropriate for the extension of the life of the General Claims Commission between the United States and Mexico in order to permit of the hearing, examination, and the decision of all claims coming within the jurisdiction of the said commission under the terms of the said convention of September 8, 1923, and to make such further arrangement as in his judgment may be deemed appropriate for the expeditious adjudication of said claims.

DECLINE OF AMERICAN COMMUNIST MOVEMENT

Mr. BORAH. Mr. President, I desire to call attention to a statement appearing in the New York Times of yesterday which, it seems to me, may be of some interest in view of the persistent discussion of the subject of the American communist movement:

The American communist movement, which was at its height in 1919, when it had a membership of 35,000, is at its lowest ebb to-day, with between 5,000 and 7,000 members, according to a survey of American communism made by James O'Neal, labor historian and editor and issued yesterday by the Rand School of Social Science, 7 East Fifteenth Street.

THE ABOLITION OF THE SECRECY OF PARTY FUNDS

Mr. WALSH of Massachusetts submitted the following resolution (S. Res. 353), which was referred to the Committee on Printing:

Resolved, That a revised edition of Senate Document No. 495, Sixty-second Congress, second session, entitled "The Abolition of the Secrecy of Party Funds," be printed with corrections and additions up to and including the Sixty-ninth Congress.

STABILIZATION OF EMPLOYMENT AND INDUSTRY

Mr. PEPPER submitted the following resolution (S. Res. 354), which was referred to the Committee on Commerce:

Resolved, That a select committee to consist of five Members of the Senate, to be appointed by the President of the Senate, is authorized (1) to investigate the problem of the cyclical recurrence of periods of business depression and unemployment, with a view to determining the relation of the construction of public works to the stabilization of employment and industry, and (2) to report, by bill or otherwise, upon methods of stabilizing employment and industry through the advance planning of public-roads projects, rivers and harbors projects, and public-buildings projects, and the expansion of such works during such periods of business depression and unemployment. The committee shall elect a chairman from among its members. For the purposes of this resolution the committee is authorized to hold hearings and to sit and act at such times and places; to employ such experts and clerical, stenographic, and other assistants; to require by subpoena or otherwise the attendance of such witnesses and the production of such books, papers, and

documents; to administer such oaths and take such testimony; and to make such expenditures as it deems advisable. The cost of stenographic services to report such hearings shall not be in excess of 25 cents per hundred words. The expenses of such committee, which shall not exceed the sum of \$25,000, shall be paid from the contingent fund of the Senate upon vouchers approved by the chairman. The committee shall make a final report to the Congress as to its findings before the close of the first regular session of the Seventieth Congress.

PRESIDENTIAL APPROVALS

A message from the President of the United States, by Mr. Latta, one of his secretaries, announced that on February 14, 1927, the President approved and signed the following acts:

S. 5197. An act to authorize an appropriation for reconnaissance work in conjunction with the Middle Rio Grande conservancy district to determine whether certain lands of the Cochiti, Santo Domingo, San Felipe, Santa Ana, Sandia, and Isleta Indians are susceptible of reclamation, drainage, and irrigation; and

S. 5499. An act authorizing a survey of the Caloosahatchee River drainage area in Florida, and of Lake Okeechobee and certain territory bordering its shores in Florida.

REVISION OF THE RULES

The VICE PRESIDENT. The Chair lays before the Senate the resolution (S. Res. 350) for the appointment of a committee to revise the Standing Rules of the Senate, coming over from yesterday.

Mr. BLEASE. Mr. President, I have had a talk with the Senator from Kansas [Mr. CURTIS], the chairman of the Committee on Rules, with reference to the resolution, and I ask that it be referred to that committee. I think if we can get together on it it will be all right.

The VICE PRESIDENT. Without objection, the resolution will be referred to the Committee on Rules.

MESSAGE FROM THE HOUSE

A message from the House of Representatives, by Mr. Chaffee, one of its clerks, announced that the House further insisted on its disagreement to the amendments of the Senate Nos. 8, 9, and 10 to the bill (H. R. 16462) making appropriations to supply urgent deficiencies in certain appropriations for the fiscal year ending June 30, 1927, and prior fiscal years, and to provide urgent supplemental appropriations for the fiscal year ending June 30, 1927, and for other purposes; agreed to the further conference requested by the Senate, and that Mr. Wood, Mr. Cramton, and Mr. Byrns were appointed managers on the part of the House at the further conference.

ORDER OF BUSINESS

Mr. HOWELL obtained the floor.

Mr. LENROOT. Mr. President, may I ask what is the order of business?

Mr. HOWELL. I understand that morning business is closed.

Mr. LENROOT. May I ask if the Senator intends to occupy very much time?

Mr. HOWELL. I do intend to do so.

Mr. LENROOT. I am very anxious to have the Chair lay before the Senate the amendments of the House to the public buildings bill. It is a matter of the greatest importance, because the deficiency appropriation bill will soon be here, and I would very much appreciate it if the Senator would give way until we can dispose of that matter.

Mr. HOWELL. I have no objection to the proposal except that I understand we are to vote on cloture at 1 o'clock.

Mr. LENROOT. Does the Senator wish to discuss the unfinished business before 1 o'clock?

Mr. HOWELL. I do.

Mr. LENROOT. Will the Senator yield to me in order that the public buildings matter may be laid before the Senate? If it leads to debate, I shall not press it.

Mr. KING. I think it will lead to some debate.

Mr. LENROOT. Very well; I withdraw my request.

Mr. McLEAN. Mr. President—

The VICE PRESIDENT. Does the Senator from Nebraska yield to the Senator from Connecticut?

Mr. HOWELL. I yield.

Mr. McLEAN. Has the unfinished business been laid before the Senate?

The VICE PRESIDENT. It has not. It is not in order at this time.

Mr. McLEAN. The regular order would be the calendar under Rule VIII, would it not?

The VICE PRESIDENT. It would.

Mr. PHIPPS. Mr. President, will the Senator from Nebraska yield to me?

Mr. HOWELL. I yield.

Mr. PHIPPS. I wonder if the Senator would be willing to defer his remarks until after the hour of 1 o'clock, when he would have an opportunity to speak, my purpose being to ask for present action on the District of Columbia appropriation bill.

Mr. HOWELL. I would be pleased to do so if we could make an arrangement or have a unanimous-consent agreement for the vote on cloture to go over until to-morrow at 1 o'clock.

Mr. PHIPPS. Of course that would be impossible.

Mr. HOWELL. Otherwise I must insist on occupying the floor at this time.

Mr. LENROOT. Mr. President, may I ask what is before the Senate?

The VICE PRESIDENT. The calendar under Rule VIII is in order.

Mr. ASHURST. Regular order!

PUBLIC BUILDINGS IN THE DISTRICT OF COLUMBIA

The VICE PRESIDENT laid before the Senate the amendments of the House of Representatives to the bill (S. 4663) authorizing the Secretary of the Treasury to acquire certain lands within the District of Columbia to be used as sites for public buildings, which were, on page 1, line 10, after "1926," to insert: "as amended,"; on page 2, line 11, after "1926," to insert: "as amended,"; on page 2, line 12, after "act," to insert: "as amended,"; on page 2, after line 14, to insert the following:

Sec. 3. (a) The first paragraph of section 5 of the act entitled "An act to provide for the construction of certain public buildings, and for other purposes," approved May 25, 1926, is amended to read as follows:

"Sec. 5. For the purpose of carrying out the provisions of this act the sum of \$250,000,000, in addition to the amount authorized in section 3 hereof, is hereby authorized to be appropriated, but under this authorization, and from appropriations (exclusive of appropriations made for 'remodeling and enlarging public buildings'), heretofore made for the acquisition of sites for, or the construction, enlarging, remodeling, or extension of public buildings under the control of the Treasury Department, not more than \$35,000,000, in the aggregate shall be expended annually (except that any part of the balance of such sum of \$35,000,000 remaining unexpended at the end of any year may be expended in any subsequent year without reference to this limitation): *Provided*, That such amount as is necessary, not to exceed \$50,000,000 of the total amount authorized to be expended under the provisions of this act shall be available for projects in the District of Columbia, and not more than \$10,000,000 thereof shall be expended annually (except that any part of the balance of such sum of \$10,000,000 remaining unexpended at the end of any year may be expended in any subsequent year without reference to this limitation): *Provided*, That at least one-fifth of the expenditures outside of the District of Columbia during the fiscal year 1927 shall be for the buildings heretofore authorized and at least one-fifth of the expenditures for the fiscal year 1928, and at least one-fifth of the expenditures for the fiscal year 1929, shall be for a like purpose unless a less amount shall be necessary to complete all of such buildings: *Provided further*, That expenditures outside the District of Columbia under the provisions of this section shall not exceed the sum of \$5,000,000 annually in any one of the States, Territories, or possessions of the United States."

(b) The last paragraph of such section 5 is amended by striking out "\$150,000,000" and inserting in lieu thereof "\$250,000,000."

And to amend the title so as to read: "Authorizing the Secretary of the Treasury to acquire certain lands within the District of Columbia to be used as sites for public buildings, and for other purposes."

Mr. KING. Mr. President, a parliamentary inquiry.

The VICE PRESIDENT. The Senator will state it.

Mr. KING. The action of the House on the bill is subject to debate, is it not, and general discussion may take place in connection with it?

The VICE PRESIDENT. That is correct.

Mr. LENROOT. Mr. President—

The VICE PRESIDENT. The Senator from Nebraska has the floor. Does he yield to the Senator from Wisconsin?

Mr. HOWELL. I yield.

Mr. LENROOT. I simply desire to make a motion and then the matter will be open to debate. By direction of the Committee on Public Buildings and Grounds I move that the House amendments be concurred in.

Mr. BRUCE. Mr. President, may I ask the Senator a question? Some weeks ago I introduced a bill in the Senate providing for the acquisition by the Government of the block between the Capitol Grounds and Third Street on the north side of Pennsylvania Avenue.

Mr. LENROOT. This is that bill with House amendments.

Mr. BRUCE. Is that feature amended?

Mr. LENROOT. It is not.

Mr. ROBINSON of Arkansas. Mr. President, I understand it is not expected that a vote will be taken to-day on the motion.

Mr. LENROOT. No; the Senator from Nebraska has stated that he wishes to occupy considerable time, so I do not expect a vote. I desire to have the motion pending, however.

NATIONAL-BANK BRANCHES

The Senate resumed the consideration of Mr. PEPPER's motion to recede from certain amendments of the Senate to House bill 2, and that the Senate concur in the House amendments to certain Senate amendments to that bill.

Mr. HOWELL. Mr. President, for years branch banking has been quietly, subtly advancing in this country, already having peacefully penetrated 20 States, although in a large majority thereof it has not as yet consolidated its positions.

The pending bill is branch banking's latest offensive, and if enacted into law will mark the beginning of disintegration in the ranks of opposing bankers; and from thence on, in my opinion, the ultimate triumph of branch banking will be as certain as if decreed by Congress to-day.

I realize that this declaration will be pooh-poohed as excessive, even by some independent bankers secure in their confidence and a feeling that they have not really begun to fight yet. However, history is not wanting in examples of superior armies being maneuvered out of position and beaten without a battle.

Again, this pending bill, heralded at the beginning as a mere proposal for justice to national banks, has been ingeniously seized upon to serve a purpose of such moment that justice to national banks becomes merely an incident in connection with the measure. By a mere rider, never contemplated by the House of Representatives in which this bill originated, it is proposed to accomplish so tremendous a thing as to anticipate by some eight years the expiration of the charter of the Federal reserve banks and afford them a perpetual charter in the form of an indeterminate grant. And, mind you, this momentous proposal appears in this bill, apparently, as an afterthought.

Further, this measure, instead of limiting the tremendous powers granted the Federal reserve banks and their members during the Great War, amplifies and extends such powers in a manner which challenges prudence; in fact, to such an extent that an alarm has been sounded from sources whose views and conclusions are regarded with the highest respect by economists and bankers throughout the country.

It is with no little diffidence that I have undertaken to address the Senate in connection with these matters involving as they do the technique of banking. However, the more I have delved into this proposed legislation and the comments thereon from authoritative sources, the more I have felt that the Members of the Senate are inclined to accept this measure without proper consideration. Only on Saturday, two weeks ago, the Commercial and Financial Chronicle of New York, one of the oldest, most outstanding, and conservative banking publications issued in the country, carried the following editorial, which I herewith quote, as its import should be considered seriously by every Senator before finally passing upon this bill:

[From the Commercial and Financial Chronicle, Saturday, January 29, 1927]

The action of the House of Representatives at Washington on Monday in passing the McFadden branch banking bill with the Senate rider attached to it for extending in perpetuity the charters of the Federal reserve banks, and minus the so-called Hull amendment, can not be viewed otherwise than matter for the deepest regret, viewed in the light of what the action implies. The statement is true both as regards the Federal reserve rider and the Hull amendment. As far as extending the charters of the Federal reserve banks is concerned, the step denotes very hasty action with reference to a subject of vital importance, bearing upon the future of the country's banking system, and which therefore should have careful and very deliberate consideration. The present term of these charters is for a period of 20 years, and only a little over 12 years out of the 20-year period has yet elapsed, leaving therefore nearly 8 years more before the charters actually expire. There was and is hence not the slightest occasion for rushing the matter along, and least of all was there justification for effecting the purpose sought by means of a rider to a measure dealing with a variety of other things, some of them highly controversial in character, such as the subject of branch banking.

The Federal reserve act is not to-day in the shape in which it was originally put upon the statute book. It was radically amended and fundamentally changed by the amendments grafted upon it in 1917, when the United States became a participant in the World War. The

gigantic struggle in which the Nation then became involved made it essential that the financial resources of the whole country should be mobilized in the most effective manner for the successful prosecution of the great struggle, in which the whole of mankind had so much at stake. To bring about the financial mobilization referred to extraordinary and inordinate powers had to be conferred upon the Federal reserve banks and their managers, powers so extreme that no sanction for them can be found except in times of war. As a prerequisite to the extension of the charters, there should accordingly be elimination and repeal of these war amendments and restoration and return of the Federal reserve system to its original scope and purpose. In a word, there should be financial demobilization, just as there has long since been demobilization of the Army and the Navy and of all the other activities of the Nation. War powers are dangerous and a menace in peace times, more so when they concern the financial and banking mechanism of the country than when they involve anything else.

Under one of the war amendments the Federal reserve banks are given authority to acquire every dollar of gold in the country and then to make this gold the basis for the issue of Federal reserve notes to two and one-half times the amount of the gold thus acquired. As the total gold coin and bullion in the country January 1, 1927, was \$4,502,429,488, this means that over \$11,250,000,000 of reserve notes could be ultimately issued and put in circulation if the Federal reserve officials saw fit. This is too vast a power to confer upon any body of men, even if they were endowed with wisdom from on high. It is no answer to say that there is no present likelihood of any such vast volume of reserve notes being put out. Some of the reserve officials in public addresses hardly more than two years ago were harping upon the alleged superiority of the reserve note over the gold certificate, since the gold certificate when in circulation can never be expanded beyond 100 cents on the dollar, while in the hands of the reserve banks the certificate can be represented by \$2.50 in reserve notes, and these officials made it equally clear that they are at all times ready to avail of the power of expansion thus possessed. Then look upon the growth of brokers' loans upon the Stock Exchange. Only a few years ago brokers' loans upon the Stock Exchange aggregating \$1,000,000,000 to \$1,200,000,000 were looked upon as affording occasion for concern. Now brokers' loans aggregating \$3,000,000,000 are viewed with complacency.

By another one of the war amendments the member banks are required to keep the whole of their reserves with the Federal reserve banks instead of only a part of such reserves. This amendment should also be repealed. The member banks should be obliged to hold at least a portion of their reserves in actual gold in their own vaults, and the reason is the same as in the other case, namely, that the Federal reserve banks should not be given the vast powers involved in intrusting them with the whole of the legal reserves of the member banks, with view to lending these reserves back again to the member banks, for in the last analysis that is what borrowing by a member bank at the Federal reserve bank means. Inasmuch as the deposits of the Federal reserve banks consist of nothing except the reserves of the member banks (barring the relatively small amount of United States Government deposits held), when these deposits are made the basis of loans to the member banks, either on the security of commercial bills or United States Government obligations, the operation or process represents nothing more or less than the borrowing back by the member banks of their own reserves. The whole of the member bank reserves should never be turned over to the reserve banks for any such purpose, and strict limitations should be put upon the use of such portion as it is deemed proper to place in their custody and control. Legal reserves, after all, are merely minimums, and they should never be treasured upon more than absolutely necessary.

Other war amendments, removing previous restrictions and limitations, should also be repealed, and previous safeguards on prudent and conservative action and policy restored. For instance, issuance of reserve notes should be permitted only against the security of commercial paper and not in any other way, so that it would always be possible by a mere glance at the weekly returns of the reserve banks to see what portion of their resources was being employed—that is, was being loaned back to the member banks.

Repeal of these war powers, as we have often indicated, should precede, or be concurrent with, the extension of the charters of the Federal reserve banks. Not only that, but there should be a very careful and a broad and statesmanlike consideration of the operation of the Federal reserve system, during the period of its existence, with a view to seeing whether any other changes are necessary in the interest of safe and sound administration. Merely extending the life of the system—and this only by a rider to another bill—is dealing lightly and superficially with a grave and pressing problem, or showing lack of appreciation of its gravity. The Federal reserve authorities, being human, do not like to be shorn of any of the excessive and extreme powers now lodged in their keeping, and there has been very active propaganda in favor of the rider to the branch banking bill ever since the adjournment of the long session of Congress on July 10 last, when the conference committees of the two Houses of Congress became deadlocked on the Hull amendment. Business men and

bankers have been flooded with literature telling them what dire things were going to happen if the Federal reserve bank charters were not immediately extended, eight years in advance of their expiration. Nothing was said of the still graver dangers that menace the country if the present absence of restrictions on reserve note issues and the unlimited grant of powers should end in financial debauch, as it must eventually do, unless the reserve act is amended in the particulars mentioned.

All this had its intended effect, inducing the House to reverse its action of last spring with reference to the Hull amendment, and to swallow the bill in virtually the shape it was formulated by the Senate, hook, line, and sinker—that is, not only without the Hull amendment but accepting all the other changes made by the Senate except two or three very minor ones. But what a woeful lack of confidence in the intrinsic merits of the Federal reserve system the whole proceeding betrays. The long and short of the matter is that those engaged in rushing the thing through are afraid that if they allowed the present opportunity to give indefinite limit to the life of the reserve banks to pass and left the proposal for consideration at some future Congress, along with the question of repealing the war time amendments, discussion of the shortcomings of the system would develop and lead to so much opposition as to defeat all efforts at renewal of the lease of life, thereby repeating what happened to the first United States bank and the second United States bank. Candor compels the assertion that those who are opposed to considering extension of the Federal reserve charters as part of the proposition to revise the Federal reserve act itself are afraid of the light of day. It is a sorry situation when things come to such a pass as this.

Of course, failure to revise the reserve act now does not prevent future revision. But such future revision will be much more difficult than would revision while the life of the institutions is at stake. The Federal reserve authorities will resist to the utmost efforts to deprive them of any of their excessive and inordinate powers, and it will be easy to keep constantly deferring action on the repeal of the war amendments and rest contented without doing anything meanwhile. And not only that, but we may suppose that the same tinkering that has been uninterruptedly in progress since the reserve act was passed will continue in the future, and there will be piecemeal additions and changes, not always desirable or meritorious, since no one will give much attention to what is going on where no major operation is involved. If the reserve act were now, once and for all, revised in a broad and statesmanlike way it would have true elements of endurance and future tinkering might be largely avoided.

Notwithstanding that the charters have been (or are to be by Senate action) extended, Congress will retain full control over the institutions and can decree their dissolution at any time. But that is a different thing from letting the life of the institution expire by limitation. With the charters extended in perpetuity the reserve banks do not have to come before Congress at a definite date and ask judgment upon their acts. That is an advantage of the greatest moment, but, as shown, will tend to the perpetuation of evils and abuses. It is for that reason that complete revision of the reserve act should have been made an inseparable part of the proposition to extend their life.

As for the branch banking bill itself, it is an omnibus measure, as we have often pointed out in these columns, and the branch banking feature constitutes simply one of many different provisions. Some of these provisions are good and others are open to grave objection. The general purpose of the bill is meritorious. This purpose can be stated in a single sentence. It is to place the national banks on a plane of equality with the State banks. That is true of the branch banking provision, no less than of most of the other provisions. At present nearly half the States of the Union (22 States out of 48, to be exact) have granted the right to open branches.

The national banks now have no such rights, though the law in that respect has been more or less evaded and the Comptroller of the Currency has sanctioned the establishment of so-called tellers' windows, which are virtual branches. The bill undertakes to give the national banks the unqualified right to establish branches under certain restrictions and limitations. The bill, as accepted by the House, permits national banks to operate branches within the limits of the city where the bank is located, but the city must have a population of at least 25,000; only one branch may be established in cities of less than 50,000 and only two in cities of not more than 100,000 population. In cities over 100,000 branches may be established in the discretion of the comptroller, and he may, of course, be depended upon to see to it that the national banks suffer no disadvantage in that respect in comparison with State institutions. The Hull amendment relating to branch banking, which had deadlocked the conferees since last spring and which is now to be eliminated—the House having completely reversed its position of last year (June 24) when it instructed the conferees to insist on that amendment by a vote of 197 to 118, having now voted the amendment out of the bill by 228 against 166—aimed to prevent branch banking from creeping into the 26 States which now do not authorize branch banking, by denying to national banks authority to open any branches at all in those States, even if any of such States should hereafter enact legislation permitting their own banks to establish branches.

By the elimination of that amendment the national banks are ipso facto given the right to open branches in any of those States the moment any such State authorizes its own banks to open up branches. We were not at first inclined to favor this amendment, but the lengthy discussions of it at the annual convention of the American Bankers' Association at Los Angeles last October convinced us that if branch banking is to be limited, and confined to the States where it has found lodgment, the Hull amendment should form part of the measure. Without that amendment national banks are given the right in advance to engage in branch banking, and the bill instead of being a bill for the limitation and restriction of branch banking, as is its aim and purport, becomes actually a measure for its extension. To give national banks the right in advance to engage in branch banking in the States referred to, is to extend an invitation to the national banks to get a State law passed for that purpose in order that they themselves may engage in the practice and it requires no stretch of the imagination to see that in some of the States at least that is what actually may happen.

The Senate was adamant in its opposition to the Hull amendment and it was urged that it was a discrimination against the nonbranch States. As a matter of fact, it is nothing of the kind. The States are left free to do as they like with their own institutions and, as far as the national banks are concerned in the same States, it would be an easy matter for these banks to go to Congress after the State had acted and ask the same privilege for themselves. We say that without the Hull amendment the branch-banking provision of the bill becomes a provision for the extension of branch banking, rather than a provision for its limitation. That follows from the fact that the national banks are given the privilege immediately to engage in branch banking in the State where branch banking now exists, a privilege which is now denied to them, and in that particular the bill is unquestionably a measure for the extension of branch banking. Keeping it out of the States where it does not at present exist would have afforded a definite limitation, but with that provision also eliminated the broadest right of branch banking is given not only for the present but for the future within the limits as to population already mentioned.

Even state-wide branch banking would seem to be authorized to the extent that it now exists, though not as respects any future additions which are distinctly ruled out. Here is the section of the bill dealing with that particular phase of the subject:

"Any bank incorporated by special laws of any State, or organized under the general laws of any State or of the United States, desiring to become a member of the Federal reserve system, may make application to the Federal Reserve Board, under such rules and regulations as it may prescribe, for the right to subscribe to the stock of the Federal reserve bank organized within the district in which the applying bank is located. Such application shall be for the same amount of stock that the applying bank would be required to subscribe to as a national bank.

"The Federal Reserve Board, subject to the provisions of this act and to such conditions as it may prescribe pursuant thereto, may permit the applying bank to become a stockholder of such Federal reserve bank.

"Any such State bank which, at the date of the approval of this act, has established and is operating a branch or branches in conformity with the State law may retain and operate the same while remaining or upon becoming a stockholder of such Federal reserve bank; but no such State bank may retain or acquire stock in a Federal reserve bank except upon relinquishment of any branch or branches established after the date of the approval of this act beyond the limits of the city, town, or village in which the parent bank is situated."

This would seem to protect absolutely the big California banks with their branches scattered all over the State, except that it would not permit them to carry the process of acquiring or establishing further branches beyond what they may have on the day when the bill receives the approval of the President. It will be observed that the language is very broad and unqualified in that respect, saying: "Any such State bank which, at the date of the approval of this act, has established and is operating a branch or branches in conformity with the State law, may retain and operate the same while remaining or upon becoming a stockholder of such Federal reserve bank; but no such State bank may retain or acquire stock in a Federal reserve bank except upon relinquishment of any branch or branches established after the date of the approval of this act beyond the limits of the city, town, or village in which the parent bank is situated." The closing words of this clause deserve close scrutiny. In saying that after-acquired branches may not be retained "beyond the limits of the city, town, or village in which the parent bank is situated," is it not to be inferred that the prohibition does not extend to after-acquired branches within "the limits of the city, town, or village in which the parent bank is situated"?

As for the rest of the measure the bill, as already stated, is an omnibus proposition and covers so many different things that space does not permit their enumeration. Suffice it, therefore, to say that among other things it extends from one year to five years the time limit on loans on real estate, a very questionable privilege, with nothing to recommend it.

National banks should have only liquid assets, and there is certainly nothing liquid in a real estate mortgage having five years to run.

Mr. SHIPSTEAD. Mr. President—

Mr. HOWELL. I yield to the Senator from Minnesota.

Mr. SHIPSTEAD. The Senator is aware that there has been a great inflation in building during the last few years. That paper is hard to get rid of now. If the banks can be allowed to take it, it will give great relief to that industry, and steel can continue to be sold at inflated prices, and lumber and building material. It may cause frozen assets, and it may cause a condition in banks such as has been experienced by reason of frozen assets in agricultural communities after the deflation was brought on by the Federal reserve banks. That contingency, of course, can arise in the future if they keep piling up these loans against the assets of banks, tying them up for four or five years, having no liquid assets or very little of liquid assets in case of a crisis, and we may have the same kind of a situation in industrial centers in the large cities that we have had in agricultural communities. Does not the Senator think so, with this kind of loans?

Mr. HOWELL. If this provision had been in effect during the war period every national bank throughout the great West would have been loaded down with real-estate paper.

Mr. SHIPSTEAD. They are loaded down now.

Mr. HOWELL. They are loaded down now because they have the notes of those who bought real estate; but under this bill the banks would have been the direct loaners upon many of the purchased properties.

Moreover, real estate in some sections of the country, where there has been serious inflation of real-estate values, is liable to undergo sharp depreciation, where that has not already occurred. A very praiseworthy provision is that which removes the present 99-year limitation upon national-bank charters and authorizes the national banks to continue their operations indefinitely, subject simply to forfeiture for violation of law or termination by Congress. This provision is commendable from every standpoint and will also enable national banks to administer long-term and perpetual trusts. The bill also authorizes the Federal Reserve Board to discontinue branches of the Federal reserve banks and likewise permits national banks to divide their stock into shares of less than \$100 par value. As to the remaining changes and amendments, the following is the closing portion of an editorial on the subject which appeared in the Journal of Commerce of this city, of which H. Parker Willis, who drafted the Federal reserve act, is editor, on Wednesday morning, January 26:

"The significance of the McFadden bill, should it become law, will be found entirely in its relaxation of the loan restrictions upon national banks, its alteration of the form of their investments, its broadening of the power to lend on collateral security, its doubtful changes in the criminal provisions of the law, and the increasing danger of bank failures, which will increase as a result of it. Some of these things have already been taken cognizance of by the Federal Reserve Board, which has strongly urged Congress to consider with much greater care the problem of revising section 5200, Revised Statutes. Congress has turned a deaf ear to these pleas, and the community will, if the measure goes to the statute books, as many assert that it will without further delay, have to make its study of the legislation after instead of before passage. This has been our practice for the past 10 or 12 years. It is a conservative statement amply able of defense that none of the numerous banking measures, major amendments to the Federal reserve act and others, that have gone through during the 12 years past have received any real consideration on the floor."

Mr. President, the quotation from the Journal of Commerce contained in this editorial should certainly challenge attention.

Dr. Henry Parker Willis, the editor of that publication, is an undoubted authority on banking. After receiving his degrees of bachelor of arts and doctor of philosophy at the University of Chicago he spent several semesters at the Universities of Leipzig and Vienna, later serving as professor of finance at George Washington University, later as dean of the college of political science of the same institution, and as lecturer at Columbia University on economic subjects.

Doctor Willis also acted as expert to the committee which presented the Federal reserve act, was later chairman of the technical-organization committee which planned the organization of the new banks, and upon formation of the Federal Reserve Board was selected to act as secretary. In 1916 he became president of the newly organized Philippine National Bank, organizing both the parent office and its New York agency. Doctor Willis also acted as expert for the Monetary Commission of 1897, the United States Immigration Commission, and the Joint Committee on Rural Credits. In addition, he is the author of a number of standard works.

Later I shall have occasion to refer to the testimony of Doctor Willis before the Banking and Currency Committee of the Senate.

BRANCH BANKING

For a number of years bankers in certain States of the Union have been developing branch banking. However, with the exception of California, practically nowhere has threatened the baneful effects of the monopolization of credit that ultimately attends branch banking as developed in some other sections of the world. In short, branch banking by State institutions has, generally speaking, been really limited in character.

So far as national banks are concerned, the original act, by implication, prohibited branch banking as ruled by Attorney General Wickersham in 1911, and also some two or three years ago by the United States Supreme Court in the case of the First National Bank of St. Louis.

However, an amendment to the national banking act became effective in 1865 authorizing State banks converting to national banks to retain their branches wherever they might be located. As a consequence up to 1918 national banks were maintaining 33 branches under the provisions of this act. Prior to this time, 1918, pressure had been brought upon Congress for a further amendment of the national banking act contemplating the admission of additional branches to the system, and in November of that year an amendment was adopted providing that in the case of a State bank having branches consolidating with a national bank it might continue to operate such branches of the absorbed bank as were within the county in which the national bank was located. As a consequence of this amendment there have been branches of national banks added to the number of 120, which, together with the branches in existence as a result of the amendment of 1865, makes a total number of branches of these two characters of 166.

The pressure by national banks for additional branches was constantly becoming more acute, and as a consequence Mr. Crissinger, the new Comptroller of the Currency, appointed by President Harding, deviated from the precedent of his predecessors by actually allowing the establishment of branches in branch-banking States within the cities of the parent banks, calling them "teller's windows." Because of criticism of such action Mr. Crissinger's successor, Henry M. Dawes, applied to Attorney General Harry M. Daugherty for an opinion as to the legality of Mr. Crissinger's course. The resulting opinion of Attorney General Daugherty was contrary to that of Attorney General Wickersham of 11 years before and in favor of such branches. As a consequence, Mr. Dawes continued the practice of Mr. Crissinger in allowing the establishment of such so-called "teller's windows," and from that time until last October 298 of such branches were established in branch-banking States. In addition, the Comptroller of the Currency has allowed to be maintained eight branches within nonbranch banking States, to wit, six in Minneapolis and two in my home city of Omaha.

That there is, in fact, no authority for such branch-bank extensions, as in the case of the last branches referred to, is evidenced by an expression of the United States Supreme Court. In the First National Bank in St. Louis v. State of Missouri (decided January 29, 1924, 263 U. S. 640-668), after referring to Attorney General Wickersham's opinion of 1911, the court included the following remarks in a footnote:

Our attention is directed to a later opinion of the Attorney General [Harry M. Daugherty] dated October 23, 1923, which, although in terms affirming the earlier opinion, announces a limited rule which does not seem to be in precise agreement with it. To the extent of the disagreement, however, we accept the view of the earlier opinion.

Thus it is evident that it was the view of the United States Supreme Court that the action of Mr. Crissinger, subsequently followed by Mr. Dawes and the present comptroller, in authorizing the establishment of national bank branches, even though designated "teller's windows," was in contravention of the national banking act.

From the above facts it is possible in a measure to trace the recent development of sentiment for branch banking. From 1865 to 1918 but 33 branches entered our national banking system. During the following eight years, however, 439 branches have been added.

Mr. SHIPSTEAD. No national bank could do anything not specifically permitted in the national banking act. It is, therefore, quite clear that this system of branch banking has been permitted to be foisted upon various communities by the lack of enforcement of the banking act by the Comptroller of the Currency and other officials who have the duty of enforcing all laws, including the national banking act. Is not that true?

Mr. HOWELL. It is a fact that in contravention to our national banking act, as interpreted by the Supreme Court, 304 national bank branches, called "tellers windows," have been added to our system since about 1922.

Mr. SHIPSTEAD. Is it not true that in view of the decisions of the Supreme Court they have been operating unlawfully?

Mr. HOWELL. That would be my conclusion.

Mr. SHORTRIDGE. Mr. President, did the Senator say State branch banks or national branch banks?

Mr. HOWELL. I am talking about merely national banks now.

Mr. McLEAN. Mr. President, does the Senator know how many of those branches came in under section 5155, under the old 1865 act?

Mr. HOWELL. Yes; 33 came in under that act.

In this connection the pressure for the extension of branch banking is peculiarly illustrated in the case of the First National Bank, of St. Louis. For a narration of this bit of national bank history, I shall quote, in part, C. W. Collins in his "The branch banking question":

The First National Bank in St. Louis, acting upon the advice of its own counsel, and without seeking the formal approval of the Comptroller of the Currency, proceeded to establish—as the record shows—a branch bank on June 15, 1922, within the city of St. Louis and announced its attention of establishing in the near future several additional banks (p. 59, The Branch Banking Question, by Collins).

In view of the facts it would seem that Mr. Collins was not fully informed in the premises at the time he penned this statement, as it does not seem possible that the First National Bank in St. Louis would have gone to the expense of establishing one branch, of equipping a second and a third branch, and making leases for additional branch locations without some understanding with the Comptroller of the Currency as to what his attitude would be.

There were no State banks in that city with branches in operation, and there was upon the statute books of the State of Missouri a law which provided that no bank should maintain a branch bank or receive deposits or pay checks except in its own banking house.

The State of Missouri thereupon, on June 27, 1922, through its attorney general, brought original proceedings in the nature of quo warranto in the State supreme court against the bank to determine its authority to establish and conduct a branch bank in the city of St. Louis. The State alleged that the First National Bank was engaged at this branch bank in the business of banking by discounting bills, notes, and other evidences of debt, receiving deposits and paying checks, buying and selling bills of exchange, and lending money. In other words, that a general banking business was being conducted at the branch. This, it was contended, was in violation of the laws of the State which prohibited the establishment of branch banks; that the prohibition in this law was applicable to the First National Bank, because the national banking laws did not permit a national bank to establish a branch bank. The attorney general prayed that the bank be ousted from the privilege of operating this branch bank or any other branch bank.

The bank filed a demurrer which presented two questions of law; first, that the State of Missouri was without authority to institute proceedings of this character against a national bank, and second, that the First National Bank was within its charter powers in establishing the branch bank in question.

Upon this issue of law the case was submitted. The record discloses no issue of fact, the bank having entered no denial of the allegations of fact set up in the information filed by the attorney general of the State.

The Supreme Court of Missouri held that the prohibition in the Missouri statute against the maintenance of branch banks applied to national banks, and the contention of the State was upheld, judgment being rendered ousting the First National Bank from the location occupied by the branch.

The case was thereupon brought to the Supreme Court of the United States upon writ of error upon the same issue of law which was before the Supreme Court of Missouri.

This case, coming on as it did at a time when the branch-banking question was being hotly discussed in a number of States, attracted a great deal of attention. There was an imposing array of counsel on each side, numbering in all 30. On the brief of the attorney general for the State of Missouri there were also the attorneys general for the States of Illinois, Connecticut, North Dakota, Washington, Wisconsin, Iowa, Arkansas, Minnesota, Indiana, and Kansas. The Association Opposed to Branch Banking was also represented by counsel, and a number of briefs were filed with leave of the court as amici curiæ. Among these was the brief of Solicitor General Beck, who appeared on behalf of the Government of the United States.

The case was argued before the Supreme Court on May 7, 1923, and was restored to the docket for reargument May 21, 1923, and was reargued November 21 and 22, 1923.

The Solicitor General took the position that the State of Missouri was without jurisdiction in attempting by quo warranto to inquire into

the charter powers of a corporation created and supervised by the Federal Government. That to uphold the State of Missouri would involve an infringement upon the sovereignty of the United States, whose jurisdiction over the charter powers of national banks was complete and all embracing. In discussing the merits of the case he agreed with counsel for the State that a national bank was without charter power to establish a branch bank for the conduct of a general banking business, but that this lack of power was not inconsistent with the maintenance of city agencies of the banking house for the conduct of certain routine business found to be necessary under present conditions in order properly to carry on a banking business in certain cities. The question, however, of the authority to establish such agencies was not before the court in this case and formed no part of the opinion.

Mr. Justice Sutherland delivered the opinion of the court, in which the contention of the State was upheld and the judgment of the Supreme Court of Missouri confirmed. Mr. Justice Van Devanter, Mr. Justice Butler, and Mr. Chief Justice Taft dissented from the majority opinion on the question of the jurisdiction of the State of Missouri to maintain this action.

In reaching this conclusion the Supreme Court held that a national bank has no charter power, express or implied, under the national banking laws to establish and maintain a branch bank, and therefore when the First National Bank in St. Louis established a branch bank it was a clear violation of the Missouri statute. That the enforcement of the State law against a national bank did not in any way conflict with the laws of the United States because the prohibition therein was directed against acts which the Federal laws did not permit. The State was permitted to determine for itself whether the Federal statutes permitted a national bank to establish a branch bank, and having determined that the power sought to be exercised by the bank had no justification in any law or authority of the United States, the way was open for the enforcement of the State statute by the State authorities.

In the light of this opinion, how may a branch bank then be defined? The court followed Attorney General Wickersham's opinion of May 11, 1911, which in turn was confirmatory of the long-established position of the Comptroller of the Currency.

Mr. SHORTRIDGE. Will the Senator from Nebraska have the goodness to make the statement again in regard to the number of branch banks and in what States there were branches of nationally chartered banks? Were they in States where State-chartered banks were permissible or not?

Mr. HOWELL. They were all, except in the case of eight branches, six in Minneapolis, though the State of Minnesota does not allow branch banking, and two in Nebraska, where also branch banking is not allowed.

Mr. SHORTRIDGE. All the others were in States where State-chartered banks are permitted to have branches?

Mr. HOWELL. That is correct.

Mr. SHIPSTEAD. Mr. President, will the Senator yield?

Mr. HOWELL. I yield.

Mr. SHIPSTEAD. They were started with the sanction and permission of the Comptroller of the Currency?

Mr. HOWELL. The last eight to which I have referred, or does the Senator mean the 304?

Mr. SHIPSTEAD. The 304.

Mr. HOWELL. Undoubtedly. The Comptroller of the Currency could stop them now if he saw fit to do so. He has the power under the law.

Mr. SHIPSTEAD. But Congress had given them no right?

Mr. HOWELL. It had given them no right.

Mr. SHIPSTEAD. So here we have an illustration of bureaucracy legislating instead of Congress legislating?

Mr. HOWELL. Attorney General Wickersham in 1911 filed an opinion to the effect that a national bank could not have branches. In 1922 or 1923, as I remember, Mr. Dawes appealed to Mr. Daugherty.

The VICE PRESIDENT. The hour of 1 o'clock having arrived, the Chair lays before the Senate the motion of the Senator from Pennsylvania [Mr. PEPPER] that the Senate proceed under Rule XXII to the consideration of his motion with reference to House bill No. 2, which motion the clerk will read.

The Chief Clerk read as follows:

[H. R. 2]

Motion to close debate under Rule XXII on the motion proposed by Senator PEPPER to recede from certain Senate amendments to H. R. 2 and to concur in certain House amendments to Senate amendments to the same measure.

CLOTURE MOTION ON BANKING BILL

We, the undersigned Senators, in accordance with the provisions of Rule XXII of the Standing Rules of the Senate, move that debate be brought to a close upon the motion of the Senator from Pennsylvania [Mr. PEPPER] that the Senate recede from its amendments Nos. 1, 13, 14, 15, 16, and 35 to the bill (H. R. 2) to amend an act entitled

"An act to provide for the consolidation of national banking associations," approved November 7, 1918; to amend section 5130 as amended, section 5137, section 5138 as amended, section 5142, section 5150, section 5155, section 5190, section 5200 as amended, section 5202 as amended, section 5208 as amended, section 5211 as amended, of the Revised Statutes of the United States; and to amend section 9, section 13, section 22, and section 24 of the Federal reserve act, and for other purposes; and that the Senate agree to the amendments of the House of Representatives to the amendments of the Senate Nos. 11, 26, 30, 36, 37, 38, and 39, and to the amendment of the Senate to the title of said bill.

(Signed by 58 Senators.)

The VICE PRESIDENT. The clerk will call the roll to determine whether a quorum is present.

The legislative clerk called the roll, and the following Senators answered to their names:

Ashurst	George	McKellar	Schall
Bayard	Gillett	McLean	Sheppard
Bingham	Glass	McMaster	Shipstead
Blaine	Goff	McNary	Shortridge
Borah	Gooding	Mayfield	Simmons
Bratton	Gould	Metcalf	Smith
Bruce	Greene	Moses	Smoot
Cameron	Hale	Neely	Stanfield
Capper	Harrell	Norris	Steck
Caraway	Harris	Nye	Stephens
Copeland	Harrison	Oddie	Stewart
Couzens	Hawes	Overman	Swanson
Curtis	Heflin	Pepper	Trammell
Dale	Howell	Phipps	Tyson
Deneen	Johnson	Pittman	Underwood
Dill	Jones, Wash.	Ransdell	Walsh, Mont.
Edge	Kendrick	Reed, Pa.	Warren
Edwards	Keyes	Robinson, Ark.	Watson
Ferris	King	Robinson, Ind.	Weller
Fletcher	La Follette	Sackett	Wheeler
Frazier	Lenroot		Willis

The VICE PRESIDENT. Eighty-four Senators having answered to their names, a quorum is present. The question is, Is it the sense of the Senate that debate shall be brought to a close? The clerk will call the roll.

The Chief Clerk proceeded to call the roll.

Mr. CURTIS (when Mr. BROUSSARD's name was called). I was requested to announce the unavoidable absence of the Senator from Louisiana [Mr. BROUSSARD]. On this question he is paired with the Senator from New York [Mr. WADSWORTH] and the Senator from Colorado [Mr. MEANS]. Were these Senators present, the Senator from Louisiana would vote "nay" and the Senator from New York and the Senator from Colorado would vote "yea."

Mr. SACKETT (when Mr. ERNST's name was called). My colleague the senior Senator from Kentucky [Mr. ERNST] and the senior Senator from Delaware [Mr. DU PONT] are paired on this vote with the Senator from Missouri [Mr. REED]. If present, the Senator from Kentucky and the Senator from Delaware would vote "yea" and the Senator from Missouri would vote "nay."

Mr. JOHNSON (when his name was called). Upon this vote I am paired with the senior Senator from South Dakota [Mr. NORBECK], who is confined in the hospital as the result of an accident, and the senior Senator from New Mexico [Mr. JONES], who is confined to his home by illness. The Senator from South Dakota and the Senator from New Mexico would vote "yea" if they were here. If I were permitted to vote, I would vote "nay."

The roll call was concluded.

Mr. WILLIS. My colleague the junior Senator from Ohio [Mr. FESS] is unavoidably absent from the Chamber and it has not been found possible to arrange for him a pair on this vote. If my colleague were present, I am assured that he would vote "yea."

The result was announced—yeas 65, nays 18, as follows:

YEAS—65			
Ashurst	Goff	Metcalf	Simmons
Bayard	Gooding	Moses	Smith
Bingham	Gould	Neely	Smoot
Bratton	Greene	Oddie	Stanfield
Bruce	Hale	Overman	Steck
Cameron	Harrell	Pepper	Stephens
Capper	Harris	Phipps	Stewart
Caraway	Harrison	Pine	Swanson
Copeland	Hawes	Pittman	Tyson
Couzens	Howell	Ransdell	Underwood
Curtis	Jones, Wash.	Reed, Pa.	Warren
Edge	Kendrick	Robinson, Ark.	Watson
Edwards	Keyes	Robinson, Ind.	Weller
Ferris	McKellar	Sackett	Willis
Fletcher	McLean	Schall	
Gillett	McNary	Sheppard	
Glass	Mayfield	Shortridge	

NAYS—18			
Blaine	Frazier	Lenroot	Trammell
Borah	George	McMaster	Walsh, Mont.
Dale	Heflin	Norris	Wheeler
Deneen	King	Nye	
Dill	La Follette	Shipstead	

NOT VOTING—12

Broussard	Fess	Jones, N. Mex.	Reed, Mo.
du Pont	Gerry	Means	Wadsworth
Ernst	Johnson	Norbeck	Walsh, Mass.

The VICE PRESIDENT. Two-thirds of the Senators present having voted in the affirmative, the motion is agreed to. The Senate will proceed under Rule XXII.

Mr. HOWELL. Mr. President, the action taken by Attorney General Daugherty in authorizing the Solicitor General to appear in this St. Louis case in support of national-branch banking is a further indication of the pressure that has long been developing for such privileges.

In addition to the evidence of such pressure, already cited, we now have the pending bill, which proposes to grant national banks in cities of 25,000 or more the privilege of operating city-wide branches wherever State banks are permitted by State law to engage in branch banking.

It must be evident that the granting of such authority—that is, the authority to engage in branch banking—is a direct invitation to national and State bankers desiring branch bank privileges to unite in the promotion of legislation favorable to branch banking in nonbranch banking States. Thus influential bankers located in the 26 States which to-day prohibit branch banking, desirous of engaging therein, could appeal to national bankers for assistance in changing State laws so as to permit branch banking by State banks, whereupon branches would automatically be permitted to national banks. That such combinations are by no means unlikely is evidenced by the fact that recently in New Jersey a concrete example occurred illustrating how State and national bankers may combine to the end of altering State banking laws. New Jersey's law prohibiting branch banking was changed by the legislature, but in making such change the national banks of the State insisted upon a provision making the granting of State branches contingent upon branch bank privileges being granted by Congress to national banks.

There can be no question but the majority of the banking fraternity of this country are opposed to branch banking. They have resolved against it time and again in their conventions. True, the American Bankers Association last year in Los Angeles reversed itself so far as this present bill is concerned. However, it is a fact that this reversal occurred at a special meeting and the majority for this bill without the Hull amendments is easily accounted for by the number of proponents of branch banking who were present for the very good reason that California has been a hotbed of branch banking, there being within the State between 400 and 500 branch banks. If but half of those branches were represented at this convention, the majority for this bill without the Hull amendments is accounted for.

In view of these facts, how are we to account for the almost nation-wide impetus of the idea resulting in the pressure now being exerted in behalf of branch banking? A review of the developments in banking in this country during the past 20 years unmistakably indicates the reason therefor. Branch banking offers tremendous rewards in the way of profits and power for a comparatively few enterprising men. In short, the power and profits are only limited by the extent of the monopoly that thus can be developed. The example of the Bank of Italy, of San Francisco, Calif., has undoubtedly not only appealed to the imaginations but dazzled some of our great bankers, and though they may have been opposed to branch banking in the past, yet in this California development they discern what some of them conceive to be the inevitable, and therefore their attitude to-day is—

Branch banking is on the way, why not get in now?

In 1870, Mr. A. P. Giannini was born in California, of Italian parents. At 12 he entered the employ of a commission firm; at 19 he was a partner; at 32 he retired a millionaire. Before the end of two years, however, he became restless and decided to enter the banking business, and in 1904 he established in San Francisco the Bank of Italy. Its success was instantaneous, several branches were opened in the city and, subsequently, outside branches were added, that State having authorized branch banking. He also organized the Bancitaly Corporation, a holding company, with a capital of \$5,000,000. Later its outstanding capital stock was increased to \$50,000,000, and on December 7, last, it was again increased to \$100,000,000.

In addition to the banks directly owned and controlled—

By this corporation—

its holdings consist primarily—

According to Russell, Colvin Co. of San Francisco—

of blocks of stock of the foremost banks throughout the world. It also has large holdings of listed and unlisted securities of both foreign

and domestic industrials, insurance stocks, etc. The corporation has consistently carried out its plan of acquisition, and its holdings of property and investment securities, selected to produce a high degree of safety compatible with a fair amount of return, are highly diversified.

The following is a list of the Bancitaly Corporation's subsidiaries:

First. The Bank of Italy with its 98 branches; capital and surplus, \$52,000,000 (approximately); resources, \$425,000,000.

Second. The Capital Co., a real estate corporation, with large holdings of business property in San Francisco and Los Angeles; capital and surplus, \$1,000,000.

Third. Commercial Exchange Bank of New York with its two branches; capital, surplus, and undivided profits, \$1,750,000 (approximately); resources, \$16,000,000.

Fourth. Bowery & East River National Bank of New York with its 14 branches; capital, surplus, and undivided profits, \$6,390,000 (approximately); resources, \$80,000,000.

Fifth. Banca d'America e d'Italia of Rome, Italy, with its 18 branches; capital, surplus, and undivided profits, \$10,000,000; resources, \$40,000,000.

Sixth. Stockholders' Auxiliary Corporation, an organization dealing in real estate and securities; also a bank stock holding corporation, owning, among others, 37,270 shares of the stock of the Bank of Italy; capital, surplus, and undivided profits, \$22,000,000 (approximately).

Seventh. Liberty Bank, with its 30 branches throughout northern California; capital, surplus, and undivided profits, \$3,500,000 (approximately); resources, \$43,000,000.

Eighth. Commercial National and Savings Bank of Los Angeles, with its 18 branches; capital, surplus, and undivided profits, \$4,000,000 (approximately); resources, \$25,000,000.

Ninth. Bank of America, Los Angeles, with its 21 branches; capital, surplus, and undivided profits, \$3,800,000 (approximately); resources, \$27,500,000.

The Bancitaly Corporation owns stocks of 93 banks in 25 principal cities of the United States. It also owns stocks of 73 banks in 18 foreign countries. Again—

banks directly controlled in New York and vicinity have 16 branches; in Italy, 18 branches; in California, 167 branches, which, together with the main banking offices, makes a system of 208 banking locations in all.

Banks directly controlled in New York have total resources of \$96,000,000; in Italy, \$40,000,000; in California, \$520,000,000—an approximate total of over \$650,000,000.

Mr. McLEAN. Mr. President, I do not want to interrupt the Senator unless he is willing to be interrupted.

The PRESIDENT pro tempore. Does the Senator from Nebraska yield to the Senator from Connecticut?

Mr. HOWELL. I yield.

Mr. McLEAN. Before the Senator leaves the subject of the Bank of Italy, which, I understand, is probably as glaring an illustration of branch banking as we have in this country, I should like to ask him what he thinks that bank would do—it being now, as I understand, a member of the Federal reserve system—if the Hull amendments, which I understand the Senator favors, should be adopted? In that event the Bank of Italy would have to divest itself of its branches outside of its home office. I should like to ask the Senator what he thinks that bank, which has been so successful, would do?

Mr. HOWELL. Mr. President, I propose to offer one of the Hull amendments, and if that Hull amendment should be adopted, it would not in any way affect the Bank of Italy.

Mr. McLEAN. The Senator has not answered my question. It seems to me that the Bank of Italy would at once retire from the Federal reserve system, and it would have to do so in order to save its life.

Mr. HOWELL. Not necessarily; but it could not increase the number of its branches.

Mr. McLEAN. But if the Hull amendments were adopted, I repeat, it would have to divest itself of its branches outside of its home office.

Mr. HOWELL. I am interested at this time in but one Hull amendment; however, as I understand another Hull amendment, to which the Senator refers, a State banking institution may remain in the Federal reserve system and retain all of the branches it may have at the time of the passage of this act.

Mr. McLEAN. That is one of them.

Mr. HOWELL. That is one; yes. What amendment has the Senator in mind that would compel the Bank of Italy to leave the Federal reserve system?

Mr. McLEAN. If it is reorganized and tries to become a national bank, it would have to divest itself of all of its branches outside of the home city.

Mr. HOWELL. Yes; but who suggests that it proposes to convert. It certainly does not intend to do so now.

Mr. McLEAN. And if this bill passes, after it passes it can have additional banks only in the home city; so, to that degree, the present bill is restrictive.

Mr. HOWELL. To that degree it is restrictive; but they have the Bancitaly Corporation, which may continue to acquire banks with branches.

Mr. McLEAN. It could not after this bill passes.

Mr. BORAH. Mr. President—

The PRESIDING OFFICER (Mr. BINGHAM in the chair). To whom does the Senator from Nebraska yield?

Mr. McLEAN. It could not have branches outside of the home city.

Mr. HOWELL. I am talking about the Bancitaly Corporation and not the Bank of Italy. They are two distinct institutions. The Bancitaly Corporation is Mr. Giannini's holding company.

Mr. McLEAN. There is nothing that the Federal Government can do to stay the progress of that bank.

Mr. HOWELL. No; but, Mr. President, the example of this remarkable result in California is appealing to the enterprising ambitious bankers of this country, and unless we take a decided stand to stop the advance of branch banking, branch banking is inevitable; it will move forward gradually, wiping out independent banking like a relentless glacier.

Mr. McLEAN. Mr. President, the Senator says branch banking is inevitable. The Senator who addressed the Senate yesterday [Mr. WHEELER] insisted that this was an opening wedge. Apparently, if the Senator from Nebraska is right, the log is already split wide open into two pieces, and there is nothing that the Federal Government can do to prevent the 20,000 State banks from doing anything they please with regard to the extension of branch banks.

Mr. HOWELL. Mr. President, I have not suggested that branch banking is inevitable, except if we do nothing to stem it. It is probably inevitable if we pass this bill. This measure is another step in that direction. The Cleveland Trust Co., for instance, a few years ago opened some 48 branches in Cleveland, and in four years its deposits went from \$100,000,000 to \$200,000,000. That is what is appealing to enterprising bankers throughout this country. They say, "Branch banking is here. We might as well get in; and, therefore, why not start the national-banking system on the road?" Moreover, they probably have been energized more by the example of Mr. Giannini's success in California than from any other source.

Mr. President, the achievements of Mr. Giannini in the field of branch banking have fascinated, if not almost hypnotized, some of our leading bankers. As a consequence the foundations of independent banking in this country have been positively shaken, and this bill without at least one of the Hull amendments, which I propose to offer, will constitute a serious breach in the walls of its citadel. Therefore, in dealing with this measure, we should fully realize that if we are proponents of branch banking, it will prove an aid to its progress. On the other hand, if we are opposed to this form of banking, its enactment will constitute a thrust at the vitals of independent banking.

What will branch banking mean for the United States? Mr. President, the remarks I have made to-day have been largely a compilation of some of the best thought respecting the subject matter dealt with, and I ask unanimous consent now that such portions of my address as I have read shall be printed in 8-point type.

The PRESIDING OFFICER. The Senator from Nebraska asks unanimous consent that certain portions of documents from which he has read be printed in 8-point type.

Mr. OVERMAN. These documents are to be printed in the Senator's address, are they?

Mr. HOWELL. Yes; those that I have read.

The PRESIDING OFFICER. Is there objection?

Mr. FLETCHER. I think there is some rule—

The PRESIDING OFFICER. The Chair is informed that the request is contrary to law and is not governed by the rules of the Senate.

Mr. McLEAN. I think that is so.

Mr. HOWELL. Mr. President, permission has been granted heretofore.

Mr. McLEAN. I do not think so, recently.

Mr. HOWELL. It is not contrary to law.

Mr. FLETCHER. I think the Joint Committee on Printing adopted a rule on the subject about a year ago or something like that.

Mr. HOWELL. They did; but I have asked unanimous consent that the portions only that I have read shall be printed in 8-point type.

Mr. FLETCHER. Personally, I have no objection at all; but I believe it is contrary to the rules.

Mr. HOWELL. But it has been done before, Mr. President.

Mr. McLEAN. I think the Senator from New Hampshire [Mr. Moses] has recently objected, on the ground that if it is fair to one it is fair to everybody; and the Senator realizes what it would lead to.

Mr. HOWELL. I trust the Senator from Connecticut will not object.

Mr. McLEAN. I have no objection.

The PRESIDING OFFICER. The Chair asks for information from the Senator from Nebraska, whether his request covers something of his own which is read or something which he is reading from some one else?

Mr. HOWELL. No; I have asked that what I have read myself shall be printed in 8-point type. Certain parts that I have asked to have included in my address I do not ask to have printed in 8-point type, but merely that which I have read here on the floor.

Mr. McLEAN. Yes; but the Senator has read quotations. The Senator refers to quotations which he has read.

Mr. HOWELL. Yes.

Mr. McLEAN. Personally, I think that comes under the prohibition of the rule.

Mr. HOWELL. But it has been granted heretofore; and I trust the Chair—

The PRESIDING OFFICER. Is there objection? The Chair hears no objection; and, with the understanding that the Government Printing Office will follow the law in the case, in view of the fact that there is no objection, the Senator's request will be forwarded to the Government Printing Office.

Mr. HOWELL. I have inquired about the matter, and am surprised that the Chair should make such a distinction.

The PRESIDING OFFICER. The Chair is following the advice of the parliamentary clerk.

Mr. FESS. Mr. President, will the Senator yield?

Mr. HOWELL. If the Senator will pardon me, I have just a little time.

Mr. FESS. I wanted to make a statement of what the rule is which is in favor of the Senator's position.

Mr. HOWELL. Very well; I yield.

Mr. FESS. If the Senator has submitted something that he wants to have printed without being read, it would have to be in small type, but if he reads it, though it be in somebody else's speech, it will be printed in 8-point type.

Mr. HOWELL. That is all I have asked—that what I have read should be in 8-point type.

The PRESIDING OFFICER. Without objection, the matter will be printed in 8-point type.

Mr. HOWELL. Mr. President, as to the threat of branch banking and its disadvantages, I will quote from the statements of Mr. Henry M. Dawes, former Comptroller of the Currency, in his annual report of 1923:

The danger which confronts our present banking system lies in an insidious and gradual undermining influence * * * which is the result of the desire to secure temporary benefits for particular individuals and banking institutions, without consideration being given as to the ultimate effects on the highly complicated and efficient machinery of American finance and exchange. It is peculiarly a time when these indefinite tendencies should be precipitated into their essential elements.

The above observations apply to the general subject of branch banking. * * *

In support of the general contention that the principle of branch banking has been carried to such an extent as to constitute a definite trend in certain localities the following facts are submitted:

Branch banking is permitted with various modifications in the following 17 States: Arizona, California, Delaware, Georgia, Louisiana, Maine, Maryland, Massachusetts, Michigan, Mississippi, New York, North Carolina, Ohio, Rhode Island, South Carolina, Tennessee, and Virginia.

The laws of some of these States restrict the establishment of branches to the city or county of the location of the parent bank, while others permit branches to be established in any part of the State. In California, for example, 82 of the State banks are operating a total of about 475 branches. In that State one bank operates 28 branches, one bank 19 branches, another about 71 branches in 48 different cities, another about 72 branches. Four banks in California operate a total of 190 out of the 475 branch banks in the State. In the State of Michigan upward of 300 branches of State banks are in operation. In the city of Detroit 14 banks are operating about 200 branches, and there are in Detroit only 3 national banks left in operation. In the State of New York about 251 State banks are operating branches. In the United States to-day it is reported that 517 State banking institutions have in operation 1,675 branches.

The figures used above are not intended to be authoritative or complete, and are used only for the purpose of illustration. They are,

however, sufficient to indicate that this form of banking must now be dealt with as a practical condition to be met and not as a theory.

The examination of an institution with branches and subsidiaries is a very difficult one. The interdepartmental relationships vastly complicated. It is more difficult to examine 10 institutions of a given size which are associated in a branch-banking system than it would be to examine 10 independent institutions, as all of the transactions between the different branches have to be investigated, and eliminations and adjustments made to produce a composite picture and prevent the improper manipulation or shifting of assets. This can not be done satisfactorily without a simultaneous examination of the parent bank and all of the branches. Bank examination involves very much more than a mere scrutiny of figures. Questions of moral character, of local reputation, of valuations of securities, of conformity to laws and rulings—these and many other elements enter into a proper examination. In the case of a large bank, with 75 to 100 branches, it would be impossible to mobilize a force of examiners of the ability to make an intelligent analysis of the situation in each individual community, even if it is to be assumed that the character of the banker is not a factor in the condition of the institution.

BRANCH BANKING ESSENTIALLY MONOPOLISTIC

As to the question of whether or not it is possible for independent unit banking systems to exist and operate in conjunction with a branch-banking system, very definite conclusions may be drawn from the results of the operations of branch-banking systems in other countries.

Branch banking is in vogue in England, Scotland, Ireland, Canada, Australia, New Zealand, France, and other parts of continental Europe. It is understood that it is also in operation in the Latin American countries. According to figures published in the Bulletin of the American Institute of Banking for July, 1923, in 1842 there were in England 429 banks and in 1922 only 20 banks with about 7,900 branches. Of these 20 banks, 5 controlled practically all of the banking of the nation. In Scotland there are only about 9 banks with about 1,400 branches, and in Ireland about 9 banks with about 800 branches.

In 1885 in Canada there were 41 independent banks. Under the operation of branch banking the number was reduced to 35 by the year 1905. According to recent information there are in Canada to-day only 14 banks operating about 5,000 branches. There are no independent unit banks in western Canada; in fact, none west of Winnipeg. Banking control through the branch system is concentrated in the cities of Montreal and Toronto.

Experience in other countries definitely indicates that independent unit banks do not exist parallel with branch banks. As indicating that this is not necessarily due to conditions which exist abroad, but might not exist in the United States, the following points are adduced, which clearly indicate that there are such inherent antagonisms between the two systems that they could not under any circumstances long operate together in the same country.

Branch banking is, in its essence, monopolistic. The financial resources of a number of communities are put under the control of a single group of individuals. Funds liquidated in one community may be used to develop other communities at the discretion of the officers of the central bank. The economic development, therefore, of a given territory under the control of a branch would depend upon the policy of the bank. The bank would have the power to retard or to encourage the development of a given community or individual enterprise. In this connection it has been well said that if the sudden creation of great branch-banking systems resulted in withdrawing funds from the support of rural communities in order that they may be invested in self-liquidating commercial paper originating elsewhere, then it will be true that sound, abstract banking principles will have been applied, but at a cost to the future development of the rural communities that will far outweigh any advantages that may be gained.

SERVICE OF THE UNIT BANKS

In a system of independent unit banks, the bank which best serves the community is the bank which is most certain to live the longest and be the most profitable to its stockholders. Since the type of man who starts a bank in a small community is essentially constructive, his natural associations and sympathies are with men of constructive type, and he extends the facilities of the bank most liberally to them. His loans take into account, as a first consideration, character and moral responsibility. He is naturally inclined to encourage young, aggressive, and enterprising individuals who will, in the course of time, bring business to the institution as he succeeds, and will develop commercial and industrial enterprises and be a factor in the creation of corporate and private undertakings, all of which will be feeders to the bank. As this type of individual is usually not the possessor of high-class collateral at the beginning of his career, the banker is dependent in a large measure upon character, of which he can only be sure by personal contact and acquaintance.

The distinctive accomplishment of the banking system of the United States is its contribution to enterprise and its stimulation of growth; its criterion is service.

It can well be said that the rapid economic development of America has been largely due to the policy of the pioneering unit banks which

recognized this principle of service. It is inconceivable that the representative of a nonresident board of directors should be granted the authority and the discretion to make a type of loan which is based on character, knowledge of local conditions, and ultimate benefits to be realized by the community and by the banks. While it requires a high order of ability to make this class of loan, the banking history of the United States would show, in the main, a surprisingly small mortality. These loans, however, on account of their small size in individual cases and difficulty of ascertaining their intrinsic value do not afford a basis for discount with other banks in case of stress, and no bank could exist if it were dependent entirely upon them. If across the street from the unit bank making this sort of loan were the agent of a great branch-banking institution, this agent would very quickly acquire the larger and, from the narrow banking standpoint, the desirable business of the town. This he could do by offering lower rates of interest on loans and higher rates on deposits than local conditions would ordinarily justify, which, in the nature of the case, would probably be withdrawn as soon as the independent unit banks of the town were finally eliminated. This is a process which has been pursued in the evolution of our great industrial enterprises, which have had to be curbed by the action of the Sherman antitrust law and other governmental action.

The opportunities for coercion on the part of large institutions scattered over a whole State are very great. This coercion might take any one of a number of forms. The connection of the branch banks with out-of-town customers of the institutions of a community permits of pressure being readily brought.

The expression has been used as applied to one State where branch banking exists on a large scale that the branch banks skim the cream and the unit banks are left with the skimmed milk, the result that the unit banks have gone out of existence, and the borrower who is a good moral risk, but can not produce a certain form of collateral, is left to depend upon the good graces of a representative of the branch banks who is frequently the possessor of all the discretionary powers of the local railroad agents and no more.

One of the monopolistic influences exerted by the branch banker is the ability to secure, by the payment of higher salaries, the transfer to other points of the efficient employees of the unit banks. A general procedure in the creation of branch-banking systems in one of our American States has been the absorption of local unit institutions. During the first few years the operations of these local unit institutions have, in many cases, been successful because the enterprising and pioneering talent that created the bank is still retained in official capacity, but men of this type will not long consent to hold positions which are, in their essence, merely advisory, and there is soon substituted therefor the type of employee who must be bound by rigid instructions and is capable of interpreting them only in a mechanical way. In case of an acute financial disturbance demanding immediate action, it is necessary for the representative of the branch bank to refer back to the head office for instructions as to his course of action, and a delay is occasioned by red tape which frequently makes it impossible for them to help in an emergency, even when they have the desire.

Mr. President, in 1925 I visited South Africa, and I found that there the branch-bank system was in effect. American business men whom I met expressed the hope that American business men would never be subjected at home to the delays—yes, even the humiliation—to which they were sometimes subjected in South Africa. The statement was made that the manager of a branch bank was limited in the amount he could loan—as I remember, it was only two or three hundred dollars—and in connection with all other loans it was necessary to await communication with the head office, and it often took a week before a man would know whether he was to receive an accommodation or not, and in the smaller towns if the bank would not accommodate him he had no other place to go.

To obviate the possibility of transforming national banks in nonbranch-banking States from their present attitude of enemies to that of allies in favor of branch banking I have prepared an amendment which I propose to offer. In subsection C of the House amendment of the Senate amendment of section 5155, following the word "time," I propose the insertion of the words "of the approval of this act," thus causing that subsection to read as follows:

A national banking association may, after the time of the approval of this act, establish and operate new branches within the limits of the city, town, or village in which said association is situated, if such establishment and operation are at the time of the approval of this act permitted to State banks by the law of the State in question.

The effect of this amendment is to limit the operation of branches of national banks to those 22 States where "at the time of the approval of this act" branch banking is permitted by State law.

With this amendment added to the pending bill, State banks will find it almost impossible to enlist the cooperation of national banks in securing permissive branch-bank State legisla-

tion, because national banks could not, under this amendment, ordinarily open branches the moment the State law was changed.

If the pending bill, with this amendment, had been enacted by the Sixty-eighth Congress in 1924, the national bankers of New Jersey, instead of helping to change the State law to favor branch banking would have been very active in defeating the attempt. Clearly, this amendment is fair. It does not affect the 22 States where branch banking is now permitted under State law. It does not interfere with the provisions of the pending bill granting national banks the right to have branches in the States where State banks to-day have branches. It does not interfere with the provisions of the bill granting to national banks throughout the entire country other privileges enjoyed by State banks.

If the motive or incentive to change the antibranch bank law of any State is removed, it logically follows such laws will not be changed. Consequently, the national banks located in the State of Missouri, for instance, or any other State whose laws do not permit branch banking, will not be unfairly treated. The fact that the only effect of this amendment is to keep branch banking out of nonbranch-banking territory lends significance to the efforts that have heretofore been made to keep it out of this bill.

As was stated on the floor of the House of Representatives, "no solution of the branch-banking problem can be permanent unless it is a fair solution, and the two essentials of a fair solution are, justice to the national banks suffering from the competition of State-bank branches in the States in which such branches are permitted and at the same time future protection from branch banking for both National and State banks in those States where it is now prohibited."

The pending bill authorizes branches for national banks in the States where branch banking is permitted. The amendment which I propose practically guarantees that branch banking will not spread into the 26 nonbranch-banking States. It is our view that this proposed amendment is necessary if the danger of branch banking is to be prevented from threatening the nonbranch-banking States. Without the amendment, it is apparent that a small group of influential State bankers might combine with national bankers of the State and, if favored by fortune, these allies might force branch banking upon an unwilling State. Those who wish to encourage the spread of branch banking claim that this proposed amendment is desired only by State bankers. The obvious answer to this charge is the resolution of the 1924 convention of the American Bankers' Association, made up of both National and State bank representatives, unanimously indorsing the Hull amendments to this bill that were offered in the House, of the first of which this proposed amendment was the heart.

Mr. President, I now offer the amendment in the form of the following substitute for the motion of the Senator from Pennsylvania:

Resolved, That the Senate recede from its amendments Nos. 1, 13, 14, 15, 16, and 35 to the bill H. R. 2.

That the Senate agree to the amendments of the House to the amendments of the Senate Nos. 11, 30, 36, 37, 38, and 39 and the amendment to the title:

That the Senate agree to the amendment of the House to the amendment of the Senate No. 26 with a further amendment as follows:

In subdivision (c) thereof, after the word "time," insert the words "of the approval of this act."

THE PRESIDING OFFICER. The Chair would call the attention of the Senator from Nebraska to the fact that under the rule, except by unanimous consent, no amendment shall be in order. Therefore, it is necessary for the Chair to ask whether there is objection to the offering of the amendment.

Mr. McLEAN. Mr. President, I would call the attention of the Chair to the last paragraph of Rule XXII, which reads as follows:

Thereafter no Senator shall be entitled to speak in all more than one hour on the pending measure, the amendments thereto, and motions affecting the same, and it shall be the duty of the Presiding Officer to keep the time of each Senator who speaks. Except by unanimous consent, no amendment shall be in order after the vote to bring the debate to a close, unless the same has been presented and read prior to that time.

Mr. HOWELL. There was a gentlemen's agreement about this matter. The gentlemen's agreement provided, as I understood, that there was to be ample time to debate the bill before it should be brought to a vote. There has not been ample time. I suggested that the vote on cloture be put over until to-morrow, and now it seems that in the unanimous-consent agreement there is a provision that, although the bill is subject to amendment, no amendment can be offered. I insist that this is not in

accord with the understanding which I had in reference to the bill.

Mr. McLEAN. It is a rule of the Senate we are talking about. It is not a unanimous-consent agreement in relation to the bill. It is a rule of the Senate.

Mr. HOWELL. I beg the Senator's pardon.

Mr. McLEAN. I have read the rule to the Senator. The Senator should have offered his amendment prior to 1 o'clock.

The PRESIDING OFFICER. Is there objection to the offering of the amendment?

Mr. McLEAN. I object.

Mr. HOWELL. Does the Senator object?

Mr. McLEAN. I do.

Mr. HOWELL. Mr. President, may I ask how much time have I remaining?

The PRESIDING OFFICER. The Chair is informed that the Senator has 14 minutes left.

Mr. HOWELL. I will acknowledge that I was not aware of the provisions of the rule. I understood I would have an opportunity to offer the amendment. I endeavored to secure the floor yesterday afternoon so that I might offer it. Subsequently I had the floor and gave way in order that there might be an executive session. Now it seems that I am to be denied the opportunity of offering the amendment.

Mr. WHEELER. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. Does the Senator from Nebraska yield the floor?

Mr. HOWELL. I yield the floor.

The PRESIDING OFFICER. The absence of a quorum being suggested, the clerk will call the roll.

The legislative clerk called the roll, and the following Senators answered to their names:

Bayard	Fess	King	Sackett
Bingham	Fletcher	La Follette	Schall
Blease	Frazier	Lenroot	Sheppard
Borah	Gerry	McKellar	Shortridge
Bratton	Gillett	McLean	Simmons
Broussard	Glass	McMaster	Smith
Bruce	Goff	McNary	Smoot
Cameron	Gooding	Mayfield	Steck
Capper	Gould	Metcalf	Stewart
Caraway	Hale	Moses	Swanson
Copeland	Harrell	Neely	Trammell
Couzens	Harris	Norris	Wadsworth
Curtis	Harrison	Nye	Warren
Dale	Hawes	Oddie	Watson
Deneen	Hefflin	Overman	Wheeler
Dill	Howell	Phipps	Willis
Edge	Jones, Wash.	Pine	
Edwards	Kendrick	Reed, Pa.	
Ferris	Keyes	Robinson, Ind.	

The VICE PRESIDENT. Seventy-three Senators having answered to their names, a quorum is present. The question is on the motion of the Senator from Pennsylvania [Mr. PEPPER].

Mr. FESS. Mr. President, before voting on the measure I want to make just a very brief statement. I shall detain the Senate but a short time.

I have regarded this legislation as extremely important. It is not a matter of sudden conviction with me, but a matter of long-standing investigation and observation. When the Federal reserve act was originally passed in 1913 it created very wide interest throughout the country, and was discussed as few questions are discussed, at least in my experience. It appears to me that the years since that time have demonstrated that it has been a very remarkable piece of legislation. Prior to that time, under the old banking system, which served a great purpose during its existence, we had periodic crises about every 20 years. They seemed to come with surprising regularity in those periods.

We have not had anything of that sort since the operation of the new plan began, and I am of the opinion that it has been one of the great agencies to prevent that condition recurring, and ought to prevent its recurrence in the future. For that reason I am pleased to have the provision in the bill that will extend the charter, and to have the action taken thus early, although it is several years before the charter terminates. I should dislike to see a campaign worked up in this country that would bring the Federal reserve act into politics, for reasons too apparent for comment.

Then it strikes me that there is a great deal in the fear that if this legislation shall not be passed the effectiveness of the Federal reserve system will be greatly lessened by the withdrawal from it of the national banks which under the law were forced into it. While the national banks had no choice in staying out of the system originally, they can now very easily withdraw by taking State charters, and the experience of the last few years, especially in Ohio, indicates that that is the trend; it seems to me it is inevitable. For that reason I am very anxious to see this bill enacted into law.

When the Federal reserve legislation was originally brought up in the other House I was a Member of that body and collaborated with the House author of the bill in trying to work it into shape, and I have been interested in it from that day until the present. I do not recall any piece of legislation that seems to have been buffeted as much as the one now pending. Although it has now reached the position where all that is needed is a single vote here in the Senate, there has been delay and debate on the measure to a point where there is more or less uneasiness in the country.

I was temporarily detained from the Senate a while ago when the vote was taken on the cloture rule. Having signed the motion for cloture, of course, I was anxious to have the motion adopted by the Senate and should have voted for it had I not been detained from the Chamber at the time the vote was taken. I make this statement so that I shall not be misunderstood as to the position that I occupy as to the great value of this piece of proposed legislation.

Mr. DILL. Mr. President, I desire to take but a very few moments in order to express my attitude regarding the pending bill. I am opposed to the bill, particularly because of the fact that if it shall become a law it will open the door to the enlargement of branch banking in this country. I believe that the provisions of the bill when they go into effect will result in starting in the various States where there is no branch banking a campaign to induce the legislatures to pass laws permitting branch banking, and the result will be that within a few years the branch-banking system will be extended all over the United States.

In my own State we have forbidden branch banking, but even with the prospect of the passage of this bill already there is a campaign under way to bring about such legislation, and with the passage of the bill I have no doubt at all that that campaign will gain impetus and within a very short time branch-banking legislation will be enacted in my State and in other States which now forbid branch banking.

The statement of the Senator from Nebraska [Mr. HOWELL], as to the ramifications of the Bank of Italy and its branch-banking system, it seems to me, should be conclusive to anyone as against this Government permitting the growth of such a policy. I can not for that reason support the bill.

The second reason why I oppose the bill is because of the provision for an indeterminate charter for the Federal reserve system. I do not believe that is a wise policy to adopt at any time, and especially not seven or eight years before the expiration of the present charter. It will simply mean that it will take a two-thirds vote of the House and Senate ever to revoke the charter of the Federal reserve system, because I believe that those favoring the system will probably always be able to cause the President to veto any measure designed to bring about a revocation, and that would mean that a two-thirds majority would be necessary to pass legislation repealing the charter. I am not going to take more time or delay the Senate further, but I wished to express my views to the extent I have done.

SEVERAL SENATORS. Question!

The VICE PRESIDENT. The question is on the motion of the Senator from Pennsylvania [Mr. PEPPER].

Mr. HEFLIN. What is that motion?

The VICE PRESIDENT. The clerk will read the motion.

The LEGISLATIVE CLERK. The Senator from Pennsylvania [Mr. PEPPER] moves that the Senate recede from its amendments Nos. 1, 13, 14, 15, 16, and 35, and that the Senate agree to the amendments of the House of Representatives to the amendments of the Senate Nos. 11, 26, 30, 36, 37, 38, and 39, and to the amendment to the title to the bill (H. R. 2) to amend an act entitled "An act to provide for the consolidation of national banking associations," approved November 7, 1918; to amend section 5136 as amended, section 5137, section 5138 as amended, section 5142, section 5150, section 5155, section 5190, section 5200 as amended, section 5202 as amended, section 5208 as amended, section 5211 as amended, of the Revised Statutes of the United States; and to amend section 9, section 13, section 22, and section 24 of the Federal reserve act, and for other purposes.

Mr. WHEELER. Mr. President, I suggest the absence of a quorum.

The VICE PRESIDENT. The clerk will call the roll.

The legislative clerk called the name of Mr. ASHURST.

Mr. McLEAN. Mr. President, I do not think any business has intervened between the present time and the time when the last roll call was had only a few moments ago.

Mr. HEFLIN. There certainly has.

Mr. NEELY. The Senator from Washington [Mr. DILL] has addressed the Senate on the pending subject since that time.

Mr. HEFLIN. And the motion of the Senator from Pennsylvania [Mr. PEPPER] has been stated.

The VICE PRESIDENT. Debate is not business. The Chair holds that no business has intervened since the last roll call.

Mr. LENROOT. Mr. President, I will take just a few moments in giving my reasons for the vote which I shall cast when the question on the pending motion is finally put.

I am opposed to branch banking. When the bill was before us at the last session and that matter was really the issue I did what I could upon this floor to secure the incorporation of what are known as the Hull amendments. The fact is, however, that as the bill now stands, except in a very incidental way, they are not involved, for both Houses have now agreed upon the elimination of the Hull amendments. There is no opportunity now to vote either for or against this bill. The only question before the Senate is whether the Senate shall recede from certain of its amendments and concur in certain amendments made by the House to amendments of the Senate.

Mr. President, if the proposed action would in any way tend to encourage branch banking I should oppose the motion of the Senator from Pennsylvania, but the fact is that the action which the Senate is now asked to take will tend more to discourage the extension of branch banking than to encourage the extension of it.

The first Senate amendment is found on page 2, where it was provided—

That any bank incorporated under the laws of any State, or any bank incorporated in the District of Columbia, may be consolidated with a national banking association located in the same State.

The word "State" was a Senate amendment, and if that language were to remain in the bill, any bank anywhere in a State might consolidate with another national banking association anywhere within the same State. It is proposed now that the Senate shall recede from that amendment so that the House language will stand permitting consolidation only of banks in the same county, city, town, or village.

Then, Senate amendment No. 11 reads as follows:

Nor shall any such State bank or banks entering into such consolidation be located at a greater distance from such national banking association than is authorized by the laws of the State in case of the consolidation or merger of two or more State banks.

That provision, together with the first amendment, would have permitted such a case as this. To illustrate: The Bank of Italy, which has been referred to many times here, could through its officers or stockholders organize a State bank in some town in California where it now has no branch. Under the Senate amendments, after the State bank was organized, it might be taken over by the parent national Bank of Italy, assuming it was nationalized, and it would be a lawful State branch. However, there is an amendment made by the House which clearly prevents that. It is found on page 13 and reads as follows:

If a State bank is hereafter converted into or consolidated with a national banking association, or if two or more national banking associations are consolidated, such converted or consolidated association may, with respect to any of such banks, retain and operate any of their branches which may have been in lawful operation by any bank at the date of the approval of the act.

So with that language in which the Senate is now asked to concur it would not be possible for the Bank of Italy to use the illustration which I gave a moment ago, to go through the operation which I have described and secure a lawful State branch.

That being so, Mr. President, what would be the effect of rejecting the motion of the Senator from Pennsylvania? It would mean that, so far as the Senate is concerned, it would stand for provisions that would allow a wider branch-banking privilege than will be allowed if the motion be adopted. Rejecting the motion would not kill the bill. The bill would go back to the House, and if the House then concurred in the Senate amendments, from the standpoint of those who are opposed to branch banking, we would have a worse bill than the bill will be if the motion of the Senator from Pennsylvania shall be agreed to. For that reason I shall vote for the motion.

The VICE PRESIDENT. The question is on the motion of the Senator from Pennsylvania [Mr. PEPPER].

Mr. HEFLIN. Mr. President, I suggest the absence of a quorum.

Mr. McLEAN. Mr. President, I make the point that the Senator is out of order. No business has intervened since the roll was last called.

The VICE PRESIDENT. The Senator from Alabama is out of order, no business having intervened since the roll was last called.

Mr. HEFLIN. Mr. President, after the last call had been had a United States Senator from the State of Washington addressed the Senate; the Senator from Connecticut called for the submission of the question for a final vote; I rose and asked what the question was; the Chair stated the question to the Senate. I submit to the Chair and to the Senate that that is a transaction of business. We are now to vote upon one of the most important measures that have been submitted to this body since I have been in Congress. Since the last roll call two Senators have addressed the Senate upon the subject and two points of no quorum have been made, and yet no call of the roll has been ordered for a quorum. That is manifestly in violation of Rule No. V, which reads:

1. No Senator shall absent himself from the service of the Senate without leave.

2. If, at any time during the daily sessions of the Senate, a question shall be raised by any Senator as to the presence of a quorum, the Presiding Officer shall forthwith direct the Secretary to call the roll and shall announce the result, and these proceedings shall be without debate.

Mr. McLEAN. Mr. President, I rise to a point of order.

The VICE PRESIDENT. The Senator will state his point of order.

Mr. McLEAN. The point raised by the Senator from Alabama is not debatable.

Mr. HEFLIN. I am discussing a point of order.

Mr. McLEAN. But it is not debatable.

The VICE PRESIDENT. The Senator from Alabama has a right to address the Senate.

Mr. HEFLIN. Certainly I have, on a point of order. If the Senator from Connecticut wants to resort to such tactics, I will speak the balance of the day on it.

Mr. McLEAN. Not under the rule.

Mr. HEFLIN. On the face of the rule it is plain that the Senator who represents a sovereign State has a right to ask for a quorum. There are not 25 Senators on this floor. Ninety-six Senators should be here; 48 States are entitled to their representation. Look around. There are only five or six Senators on this side and seven or eight Senators on the other side, and we are denied the right to have a quorum called.

Mr. BINGHAM. Mr. President, I rise to a point of order.

The VICE PRESIDENT. The Senator will state his point of order.

Mr. BINGHAM. The Senator from Alabama is not proceeding in order. Under Rule XXII a point of order is not debatable.

The VICE PRESIDENT. The Chair has already sustained the point of order made by the Senator from Connecticut.

Mr. HEFLIN. Does the Chair hold that we can not call for a quorum?

The VICE PRESIDENT. The Chair holds that a quorum can not be called for at this time, no new business having intervened and the Senate having taken no action since the roll was last called.

Mr. McLEAN. Mr. President, under this rule no business can intervene. The rule says:

Said measure shall be the unfinished business to the exclusion of all other business until disposed of.

Mr. WHEELER. I move to adjourn, Mr. President. I think that motion is in order. I move to adjourn at this time.

Mr. NEELY. A motion to adjourn is always in order.

The VICE PRESIDENT. The question is on the motion of the Senator from Montana that the Senate adjourn.

Mr. HEFLIN. I call for the yeas and nays.

Mr. WHEELER. I suggest the absence of a quorum.

Mr. FESS. I call for the yeas and nays.

Mr. McLEAN. The yeas and nays on the bill?

Mr. HEFLIN. No; the yeas and nays on the motion to adjourn.

The yeas and nays were ordered.

The VICE PRESIDENT. The Secretary will call the roll on the motion of the Senator from Montana that the Senate adjourn.

The Chief Clerk called the roll.

Mr. GERRY. I desire to announce that the Senator from Arkansas [Mr. ROBINSON] is necessarily detained on official business. If present, he would vote "nay."

Mr. BAYARD. I have been requested to announce that the Senator from Arizona [Mr. ASHURST], the Senator from Tennessee [Mr. TYSON], and the Senator from Massachusetts [Mr. WALSH] are necessarily absent.

The result was announced—yeas 5, nays 64, as follows:

YEAS—5

Hefflin
La Follette

Neely

Nye

Wheeler

NAYS—64

Bayard	Edge	Jones, Wash.	Robinson, Ind.
Bingham	Edwards	Kendrick	Sackett
Blease	Ferris	Keyes	Schall
Borah	Fess	Lenroot	Sheppard
Bratton	Fletcher	McLean	Shortridge
Broussard	Gerry	McMaster	Simmons
Bruce	Gillett	McNary	Smith
Cameron	Glass	Mayfield	Smoot
Capper	Goff	Metcalf	Steck
Caraway	Gooding	Moses	Stewart
Copeland	Gould	Norris	Swanson
Couzens	Hale	Oddie	Trammell
Curtis	Harrell	Overman	Wadsworth
Dale	Harris	Phipps	Warren
Deneen	Harrison	Pine	Watson
Dill	Hawes	Reed, Pa.	Willis

NOT VOTING—26

Ashurst	Johnson	Pittman	Tyson
du Pont	Jones, N. Mex.	Randsell	Underwood
Ernst	King	Reed, Mo.	Walsh, Mass.
Frazier	McKellar	Robinson, Ark.	Walsh, Mont.
George	Means	Shipstead	Weller
Greene	Norbeck	Stanfield	
Howell	Pepper	Stevens	

So the Senate refused to adjourn.

Mr. NYE. Mr. President, it is not at all surprising to me that there should be desire to limit debate upon this bank bill. It is surprising, however, that there should be a sufficient number in the Senate to make the limitation possible. But, unless I am badly mistaken, there will come a time when men will regret having been hasty in this action, just as many regretted the hasty action in January of last year, when, under gag rule, this body voted the United States onto the front porch of the World Court. Europe itself seemingly has saved us embarrassment as a result of that year-old action; but the international banker is not apt to deal with us in the case of this bank bill in a way that will save the invited embarrassment certain to follow its passage.

The limitation of debate is merely a serving of notice that the interests of the masses of people, whose economic health is dependent first and last upon the good or ill administration of our money and credit structure, are not to be considered and that the views, wishes, and interests of commercial bankers engaged in a purely legitimate banking business are not to be considered so long as those interests and wishes are in conflict with the selfish and destructive wishes of that mere handful of bankers who look to the eventual control by them of the money and credit system throughout the world.

Mr. President, I resent the false information which has been broadcast of late days alleging that the friends of honest farm legislation entered into an understanding or a deal with the banking interests to the end that both the farm measure and this bank bill might be given preferred places for consideration by the Senate. I resent it because I had no hand in any such inconsistent deal. As one who believes it to be the intent of the international banker to crush and pauperize the American farmer and the farmers of the world, I could not have brought myself under any circumstances to help in such a deal. Frankly, I should prefer to see the farm bill, the McNary-Haugen bill, defeated than to see this banking bill enacted into law. Every advantage gained under the McNary-Haugen bill in law will be offset many times by the success in Congress of this McFadden banking bill, which extends the privileges of the Federal reserve banking system and condones its damnable activities of 1920 and 1921. Where there ought now to be written certain restrictions governing the administration of the system, we find Congress instead, to-day, extending an invitation to the system to engage in another murderous program at their will, with the assurance that they will not be seriously molested for 60 years.

I regret having to confess my knowledge of banking, money, and credit to be extremely limited. It is not going to be so limited for long, however. Heaven permitting, I am going to strive to possess myself of such knowledge as will in the future enable me to discuss such matters as we have before us now with perhaps not great ability, but greater ability, at least. But though my knowledge is limited, as confessed, I can not disobey that surge within me which prompts rebellion against the banking bill now before us, a bill to recharter an institution seven or eight years before the expiration of the charter under which it now operates, as this bill does in behalf of the selfishly administered Federal reserve bank system. That surge within me grows out of my observation of the part already played by the reserve bank system in bringing the American farmer and people generally to their knees, and, in thousands and thousands of cases, driving them to the wall. It grows, too, out of knowledge of the part played by the system in the recording of the blackest page ever written in American history.

The so-called McFadden bank bill, now before us, in addition to declining to discourage branch banking or to halt a

further monopoly in banking by declining to receive the Hull amendments into the bill, grants a recharter to the Federal reserve banks for 50 years from the time of the expiration of their present charters. The charters under which they are now legalized do not expire until 1933, six years away. Why all the rush? Did the institution and its administrators need this sort of a guarantee before it and they undertook to do again what they did in 1920 and 1921? The possible reason is interesting, at least. In any event, this is called the branch-banking bill for the purpose of hiding its real purpose, namely, that of extending the life of the Federal reserve system for 50 years, and do it six years in advance of the expiration of the charter under which it operates now.

It was the Federal reserve system which helped to make credit so easy for the American farmer and others during the war. It was the credit offered through this institution which made it possible for the patriotic farmer to enlarge his farming operations during the war, to possess himself of more land, more farm machinery, and to pay for the additional high-priced help needed during that period to produce that great abundance of food for which our Government and our flag pleaded during the period of that terrible conflict in which virtually all the world engaged. It was Federal reserve credit which made it possible for the farmer and others to borrow money in order that they might buy freely, and until it hurt, of Liberty loan bonds, bonds which, in the \$100 denomination, were sold on the strength of the general belief and confidence in the Government, and on the strength of the claim that they were just as valuable and safe as a hundred-dollar bill—more valuable, indeed, because the bond drew interest and the cash did not. The farmer bought freely of these Government securities. More often than not he paid interest upon the money he needed to borrow from his bank to buy the bonds.

This Government encouraged the farmer and others to use freely of the credit made available through credit expansion by the Federal reserve system, so long as that credit was used to help win the war.

Then came the end of the war and the willful, vicious, and wicked deflation program with its resultant wreck. This program caused the farmer to dump his production upon a market wrecked by the deflation program and further wrecked by the dumping necessity. Through the desire on the part of the farmer to meet the deflation demands—namely, to liquidate the indebtedness he had been encouraged to shoulder during the war—he helped dig his own grave in so far as the destruction of the market for his products were concerned.

The farmer's visible supply of agricultural products sold on a ruined market was not sufficient to meet the demands of the deflationists. Then, to help pay his debt, he sacrificed equities in lands he had bought to help his country in time of need, and as a general thing he found that deflation had destroyed the whole value of his equity. Land values were destroyed by deflation. Then there were sacrificed the equities he held in lands bought before the war. Then went, as was true in many cases, the homestead equity or title—all this to satisfy the demand for liquidation of war-time debts, the demands of a willful few who were in control of the machinery of money and credit in America.

But, as if this were not enough punishment for his loyalty, the farmer, like others, was called upon for still more sacrifice, still more blood. To pay off his indebtedness he had to dispose of his Liberty loan bonds, those bonds which he had been encouraged by his Government to buy and which the Federal reserve system, by extending credit, had made it easy for him to buy with borrowed money. He sold his bonds, or whatever equity he had in them, in order to pay the debt as demanded by the deflationists.

And what did he receive for them? What did he receive for these Government securities "worth 100 cents on the dollar any day," as was once claimed for them? Did he receive 100 cents on the dollar for them? Indeed not! Instead he had to be content with 80, 83, and 85 cents on the dollar because the handful of deflationists would not pay more than that for them.

Mr. President, the story of that deflation program, and more particularly that Liberty loan bond steal, is the most shameful tale in all American history. Never has there been quite so brazen, quite so wicked, quite so vicious, quite so hellish, quite so shameful an attack upon an unsuspecting people and upon their confidence in their Government.

Who was responsible for this deflation program? Oh, some respond, it was the international banker! And this is largely true. But, Mr. President, the international banker could not have accomplished what he did as a result of that program without the aid of the Federal reserve bank which the people thought was an institution authorized by Congress as a part of their Government, authorized in their interests and in de-

fense of their economic interests. In this deflation program and wholesale steal the Federal reserve system responded and did the unclean work for those who gained as a result of that program.

I know it is denied that there was a secret meeting of the Federal Reserve Board, at which this deflation program was planned, but I have not heard it denied that the Federal reserve system was instrumental in fostering the program and following it through to its ungodly conclusion with the suffering which accompanied it and which still follows.

I have always maintained that the deflation program, permitted and assisted by the Federal reserve system over which the Government of the United States is presumed to have supervision, was more responsible for the present plight of American agriculture than any other contributory factor. But now, instead of making secure against a repeat performance of that program of 1920 and 1921, instead of seeking to remedy the Federal reserve act and make secure against further ill and wicked administration, we are here now prolonging the life of the institution and inviting it to come on and do to us again what it did only six years ago; and I maintain that there can be no secure and healthy prosperity until a repetition of the deflation program of 1920 and 1921 is made impossible and values not kept subject to the will of a mere handful of men.

My greatest purpose as a public official is to help win and hold such legislation and encourage such administration of that legislation as will cause people to have confidence in their Government. To my mind, the greatest need to-day is the restoration of confidence in Government. But, Mr. President and gentlemen of the Senate, we are only inviting added lack of confidence when we decline to punish the infringement of rights and the robbery of property, and, instead, countenance such acts by relicensing those who infringed and that institution which has helped in the wholesale robbery I have here related. An act here and now to remedy the condition which permitted that terrible experience of 1920 and 1921, with which we are not yet through, would do more to restore confidence in Government, save us from radicalism and Bolshevism, than anything else which might be done.

There is fear lest there might be a political attack upon the Federal reserve banks when the time comes for removal of its charters. There are guilty consciences. Is that why we must recharter now—before there is time for attack? Is that why we must, under gag rule, vote a renewal of those charters now, six years before the old charters expire? It would appear so.

Secretary Mellon, in the Nation's Business for May, 1926, is reported as saying:

A political attack against the Federal reserve system must be expected when the time comes for renewal of its charters. Its effectiveness will largely depend upon the particular phase of the business cycle which happens to prevail at the time. If the country is then in the midst of a wave of prosperity, the opposition will be slight.

Apart from Mr. Mellon's relation to the Federal reserve system by virtue of his position as Secretary of the United States Treasury, his relation to the banking world might account for the interest in the renewal of the charters of the banks in the Federal reserve system, shown by the statement which I have quoted. A special technique has been employed to inspire a popular belief that the Nation has never in its history been so blessed with prosperity, so flooded with wealth, as during the period from the early summer of 1924 to the present time. This campaign of propaganda has been reinforced by discount rates averaging for the period much below a normal rate for longer periods and again by the development of a system of installment selling to members of the employed group, in order to move inventories for which there was enormous demand, but no money with which to buy, and that otherwise could not be moved except at receivers' bankrupt sales, all to the end of keeping up the illusion of prosperity. The ominous strain of unbalanced economic conditions, evidenced by the flighty and spasmodic price fluctuations of industrial and public utility stocks as contrasted with a steady appreciation of underlying securities during recent months, demonstrates the true and perilous condition of American industry and business.

Is it not a natural inference that, considering the complexion of the incoming Congress as compared with the moribund Congress of this short session, and considering the inevitable and not distant demonstration of the Federal reserve system's inability to set aside the operations of natural economic laws by maintaining a spurious and artificial "phase" of the business cycle—"a wave of prosperity"—the present hour has been selected as opportune to apply for the renewal of the system? Next year, or the next year, or any one of the next six years, might not afford the proper atmosphere.

The McFadden bill proposes to grant indeterminate charters, virtually equivalent to perpetual charters. It enlarges the powers of the system banks beyond those proposed by the so-called Aldrich-Vreeland bill of a dozen years ago—the asset currency bill that was intended to valorize the securities of every railroad and tariff developed industry in the United States. This bill, if you please, proposes to valorize in the same way the securities of every bankrupt and experimental government of Europe, by authorizing these banks to "deal in investment securities." It is worth noting at this point that there is now being urged before the Legislature of the State of New York an amendment of the law regulating the power of the stock exchange of the State. It is proposed to enlarge their power by authorizing listing and trading in the stocks, bonds, debentures, and, in general, the securities issued by foreign governments and industries—another step in behalf of the international banker. If the McFadden bill becomes a law, every wildcat government on earth can be given a certificate of financial character and have its obligations valorized by American credit brokers. This at least implies the danger that the currency and credit of American industry will, in some part at least, be based upon the uncollectible debts of foreign States instead of American wealth.

There was never gathered in the city of Washington or in the corridors and galleries of the House and Senate, I am told, as lustful, as adroit, as importunate a lobby as is now assembled in this Capitol—the president of the American Bankers' Association, with scores of the system's bankers, from all parts of the Union. Many of them admit, and Mr. McFadden states in effect, "that unless this bill becomes a law the Federal reserve system must perish." They claim they can not compete with the State banks. Of course they can not rake in 100 per cent profit in competition with banks that are satisfied with from 10 to 15 per cent. National banks that have resources enabling them to organize trust companies can compete through their trust companies with State banks; but those national banks that can not must either become State banks—as many hundreds of them have done—or go out of business.

The system itself is at stake. The system now asking for what is virtually a perpetual charter is a party of the alleged conspiracy among the world's financial overlords to control the political and economic future of mankind. There is little doubt that there now is power in the hands of financiers that, if not soon regulated and controlled, will enable them at their own time and choice effectively to control the world; and even now finance has more than half enslaved the world.

As an indication of the development of this policy, it may be noted that the report of the British Royal Commission on Indian Currency and Finance discloses the adoption for India of the American Federal reserve system almost to the letter. It proposes the retirement and decoinage of an amount of silver rupees equal to more than three years' production of all the silver mines in the world and the substitution thereof of Federal reserve bank notes that will draw interest. Apply this program to the European states now under tutelage of Anglo-Saxon high finance, with power to discriminate between states, to impose social, political, and economic demands after the fashion applied to a section's classes and industries in our own countries by our Federal Reserve Board.

It is pertinent to contrast the claims, promises, and virtues of the system, made for it by its proponents in 1913, when the Federal reserve act was originally enacted, with the record it has made. Aside from lodging automatic and irresponsible power in the hands of men who had established a Money Trust, aside from legalizing operations for which these men had been officially condemned, aside from the fact that these same men had undertaken to secure the enactment of the Aldrich-Vreeland "asset currency" bill, the violation of every pledge of virtuous purpose made by the sponsors of the system should call for the abolition of the system, rather than for its extension as the perpetual emperor of American industry.

There have been claims made here in the Chamber in the last few days relative to the nature and standing in public life of men who back in 1913 gave their aid and gave their support to the proposed Federal reserve system. It should be noted also that without the personal aid of W. J. Bryan, then Secretary of State, the Federal reserve law could never have been enacted. He lived long enough, however, to publish his regrets for what he had mistakenly done. Mr. Bryan supported the measure editorially; he interviewed Members of the House and Senate to impress his convictions that the sponsors of the measure were sincere in their professions of public-service motives. President Wilson was earnestly favorable to currency and credit reform, and he believed these were provided for and safeguarded in the proposed bill. Others favored it, but this

was all prior to the statement by the man who, perhaps more than any other, was responsible for the form of the Aldrich-Vreeland bill as well as the Glass-Owen bill, that while the earlier bill was superior to the latter, the defects in the latter "could be corrected through administrative processes."

It is enough to say that every promise made, every pledge offered to secure the enactment of the Federal reserve law has been violated, ignored, and rejected. A Government institution? Governor Strong, of the Federal Reserve Bank of New York, stated before the Agricultural Commission that these banks are private institutions and, notwithstanding the letter of the law, the officials of these banks have diverted funds that are properly the property of the Government, to increase their personal salaries and those of their employees, to build great temples of Mammon in their banking houses in several cities, to debauch legislation, and for speculative purposes. A flexible currency? Yes; flexible as a catapult. Never has the first practice of the world's moneyed class been more faithfully observed—that is, the creation of alternate periods of high and low prices; lying when the things were low, only to sell when things were high, only to repeat the process at their own good pleasure, raising and lowering discounts at their arbitrary, irresponsible discretion, as stated by Adolph Miller, a member of the board since its original creation, in the hearings of the Banking and Currency Committee of the House on the Strong bill. The particular vice of the system lies in this arbitrary discretion to raise and lower discounts. It is an obsolescent and altogether unnecessary factor in a modern monetary system. No system preserving this factor can function in the requirement of modern finance.

How long are we to continue living in a fool's paradise? Does history mean nothing to us? This is not a new problem. It has been an open sore for every state and nation in history of the past. The farm population in every period, under every form of government, has been the first to suffer and the last to recover, when it has recovered at all, from the vices and impositions of the banking class. It angers me to hear men profess solicitude and yearning hearts for the woes of agriculture while they countenance such legislation as is now before us. No program of agricultural relief can bring relief that does not abolish the processes and agencies through which the exploitation of American farmers is carried on.

Some one wrote me recently, saying that:

While the chief function of politics is the distribution of wealth, it never created as much wealth as a single grain of mustard seed; wealth can not be created by law any more than a people can be made moral by statute. If wealth could be created by law, we should all be Midases; but we are told by ancient wisdom that no man can by taking thought add to his stature.

To now, after our experience with this Federal reserve system, prolong its life indefinitely, to now extend not only its life but to lengthen and strengthen the arms of this monopoly that constitutes this sum of all monopolies, would be to shame the American Congress for all time. What is monopoly? Monopoly is the creation of law and consists only in the power to use a public right for private profit.

The Federal Reserve Board by the act of 1913 acquired the monopoly to issue the money of the people, also to dominate the credit market. The value of this monopoly to its possessors is to be estimated not only by their annual profits but by the long, fierce fight they have made to secure it and to enlarge it. Consider the one important asset of agriculture—the land on which it labors. While I can not pretend to any thing approximating expert knowledge or understanding of the problems of high finance, still certain developing conditions have pressed upon my mind and I want to know what is to be the result. How will it affect the holders of life, fire, and accident insurance policies when the reserves of these great companies, the farm lands of these States, become frozen assets, because they would not sell for the amount of the mortgages upon them? So far as the farmer himself is concerned, he is out of the picture. He has been deflated into a hopeless tenant, a hod carrier or shovelman in some colossal city industry; but the owner of a city home, insured for less than it is worth, must await the turn of the market for his protection.

I am puzzled when I hear criticisms of European finance, with its multiplicity of currencies. When I scan the reports of American exploits in finance I observe a yearly exchange amounting to more than \$600,000,000,000, every dollar of which is supposed to be anchored to a mass of gold, while the reports of the Treasury show that there is rarely more than twenty millions of gold that is free and can be applied to any purpose. I do not quite understand it all. Again, I am puzzled when I observe that the farmer or individual who by some miracle

of chance is possessed of a single dollar that he can loan finds the best he can do with it is to get 6 cents for a year's use of his money by a borrower, while under the devices of the Federal reserve bank system the banker who loans a dollar can obtain \$40 for a year's use of his money by a borrower.

I want at this point to substantiate my claim as to how the banker would enlarge a dollar given through the present banking system. I want to read from the Monthly Review, by the Federal reserve agent, the Federal reserve bank organ published in New York at the New York Federal reserve bank back in 1923, I believe it was.

FEDERAL RESERVE SYSTEM—THE MECHANISM OF BANKING EXPANSION UNDER THE FEDERAL RESERVE SYSTEM

Under the old national-banking system in effect before the Federal reserve act, the gold and lawful money which the national banks held as reserves was in the proportion on the average of about \$1 of reserves to \$8 of loans and deposits. This power of expansion was in part the result of the ability of banks in the smaller cities and villages to keep a portion of their reserves with the city banks, where they were used as the basis for further expansion. Country banks were obliged to keep 15 per cent of their net deposits in reserve, of which three-fifths could be kept on deposit in reserve or central reserve cities. Reserve city banks were required to keep a 25 per cent reserve, of which half could be on deposit in central reserve cities, and banks in central reserve cities were required to keep a 25 per cent reserve, all of which was kept in their own vaults. Thus the same dollar of gold or lawful money might be used as reserve in three different banks, permitting an expansion greater than that implied in the average reserve requirements of the several individual banks.

In times of financial ease, when expansion was least needed, there was normally a tendency for this method of depositing and redepositing reserves to be carried to its limit. But as soon as financial stress was foreseen, when expansion was most needed, there was a tendency for the banks to draw their reserves on deposit into their own vaults, thereby reducing the power of expansion inherent in the pyramiding of reserves.

Under the Federal reserve act, which became effective on November 16, 1914, and the amendment to it of June 21, 1917, the unsound method of depositing and redepositing reserves in commercial banks came to an end. The entire reserves of all member banks were to be kept at the Federal reserve banks. This pooling of reserves at once made for greater safety and permitted somewhat smaller reserve requirements. Required reserves of country banks against net demand deposits were reduced to 7 per cent, of reserve city banks to 10 per cent, and of central reserve city banks to 13 per cent. The uniform reserve requirement on time deposits was reduced to 3 per cent. Whatever cash a member bank might find it necessary to keep in its vault for use as till money, amounting now to about 3 per cent, was not to count as reserve at all. This was a most important change in the law, because it had the effect of transferring to the reserve banks, where it might serve when necessary as the basis for credit expansion, practically all of the gold formerly held in the vaults of member banks.

The power of expansion implied in these reserve requirements should be considered in connection with the reserve requirements within the Federal reserve banks themselves. A Federal reserve bank is required to keep a minimum of 40 per cent of gold as reserve against Federal reserve notes, and a minimum of 35 per cent of gold or lawful money against deposits.

Gold, as far as the member banks are concerned has no power of expansion until it is on deposit with a Federal reserve bank. Thus a deposit of \$100,000 of gold in a member bank merely counts as a deposit and is not susceptible of expansion until it is deposited in a Federal reserve bank, when, on the average, it will permit an increase of about \$1,150,000 in the loans and deposits of a member bank. The expansion would be very much greater than that, if it were not for the fact that a large part of the deposits created at a Federal reserve bank are drawn out again in the form of Federal reserve notes. While the statements of individual Federal reserve banks show considerable variation, the proportion of Federal reserve notes outstanding as compared with the deposited reserves of member banks is at present in the ratio of about three to two, which coincides with the average estimated by Prof. W. M. Persons, of Harvard. On the assumption, then, that \$3 out of every \$5 deposited with the Federal reserve bank is withdrawn in notes, \$100,000 of gold deposited in the Federal reserve bank would permit an average increase in the loans and deposits of member banks as follows—

This is the point I am trying to make:

For banks in central reserve cities.....	\$1,030,000
For banks in reserve cities.....	1,294,000
For country banks.....	1,786,000

The different degrees of expansion in the three classes of banks are explained in their varying reserve requirements.

Do not lose sight of the fact that the language which I am quoting and the figures which I am quoting are those of the

Federal Reserve Agent, a mouthpiece of the Federal reserve bank system, published in New York.

The following example assumes that a country bank is expanding to the maximum on \$100,000 of gold deposited in a Federal reserve bank:

For every \$5 of gold deposited by a member with a Federal reserve bank \$3 is likely to be withdrawn in Federal reserve notes, and \$2 is likely to be used as reserve against the deposits of the member bank. The \$3 of gold will act as reserve against Federal reserve notes, amounting to-----	\$7.50
(Because its 40 per cent reserve requirements permits an expansion of 2.5 times.)	
The \$2 of gold will act as reserve against the reserve deposits of member banks, amounting to-----	5.72
(Because its 35 per cent reserve requirement permits an expansion of 2.86 times.)	
And that \$5.72 will act as reserve against deposits in a country member bank, amounting to-----	\$1.80
(Because its 7 per cent reserve requirement permits an expansion of 14.3 times.)	

Making a total of-----

\$9.30

Which, multiplied by 20,000 (the number of times \$5 is contained in \$100,000) gives \$1,786,000.

It will be observed that the figures given above do not take into consideration the vault cash which a member bank may find it desirable to keep. Making allowance for that requirement, and averaging all banks in the country, the expansion works out to about 11.5 times.

In order for a member bank to enlarge its reserves at the reserve bank it is not necessary for it to make a deposit of gold or lawful money, because a loan by a reserve bank to a member bank adds to the reserves of the latter in exactly the same way as though gold had been imported and deposited by that member bank, and it may use it as reserve against its own deposits or withdraw notes against it in just the same way. The determining factor as to how long such loans may go on is the stock of gold which the reserve bank has and which it uses as the basis for its own expansion.

The extent to which the reserve system's power of expansion is availed of varies, of course, with the credit needs and conditions of the country, growing when demands are great and diminishing when demands subside. Expansion and contraction of reserve credits are therefore the result of the increasing or decreasing demands of member banks rather than a cause of the increase or decrease in the amount of loans made by member banks to their customers.

Mr. President, it was promised by the sponsors of the Federal reserve bank act, before it became a law, that the system would provide such ample funds of an elastic currency that there could never be scarcity of money for legitimate needs. Farmers of my State and in other States, owners of thousands of acres of fruitful land, with flocks and herds, free from debt—wealthy, indeed, as usually understood for their place and time—could not find money to buy necessities, could not pay their help, and then awoke soon after the 18th day of May, 1920, to discover that their lands, their flocks and herds, in which all their wealth consisted, had been smitten as with some plague that reduced their value to a mere fraction of what it was before that day. The farmer learned after it was too late the probable fact that this plague had its origin in a secret mandate by the Federal Reserve Bank Board, issued from the city of Washington. And we are now asked to perpetuate the system that did that thing—to give it longer life, more powerful arms! Shall we by our action ratify, condone, justify the system and the institution that did that thing and continue its power to repeat whenever, in the discretion of a board of bankers, it may suit its purpose?

Much has been said about the Constitution and the constitutionality of bills considered in this Chamber. I have been trained to believe the Constitution to be the supreme law of the land. I have read the Constitution, I have read the construction given to it by the decisions of the Supreme Court. I have also read the construction given to it by learned lawyers of the Senate in their arguments and their votes upon this floor. I have noted that the widest differences of opinion as to its meaning have been between Senators who, in public estimation, are best qualified to define and to construe it. I find it hard to reconcile these differing and strongly held opinions and am often compelled to determine the meaning of the Constitution for myself from a plain reading of its words taken in their usual and probable common meaning at the time they were used to embody and express the thought of the men who framed that great instrument. I have read as a part of the Constitution that private property shall not be taken for public use without just compensation. It must be, therefore, that, because the taking of private property for private use without compensation is not expressly prohibited by the Constitution, we have created a system of monopolies that have transferred 75 per cent of all the property of all the people into the possession of 6 per cent of the people.

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And by the same token, if it is constitutional to bestow the taxing authority of the Republic upon private interests for the sole purpose of private enrichment, then this bank bill is, without the shadow of a doubt, perfectly constitutional. If it has been in conformity with the principles of the Constitution that we have built up a system of interlocking monopolies to levy unearned and uncompensated private taxes upon the industrial masses, then this measure is constitutional, because this measure consolidates, increases, extends, and perpetuates the power of the monopoly of all monopolies in the economic life of the Nation. No man will deny that the great basic industries of the Republic are even now the feudal serfs of the overlords of our high finance, interests that were responsible for the creation of the Federal reserve bank system and which now seek hasty renewal of the special privileges and the monopolies controlled by the system, together with an extension of these powers and enlargement of their functions. But the same interests that marshaled the forces in opposition to the McNary-Haugen bill, on the ground that it was unconstitutional and uneconomic, are using all their power to force the enactment of this measure, which I regard as the most vicious piece of legislation proposed in this body since the beginning of our Government.

There is another feature of this problem deserving attention. That is the far-reaching possibilities of the Federal reserve bank system, as its powers and future life are extended by this proposed bill, in the creation of a world reserve bank system. My attention has been called to the report of the British Royal Commission on Indian Currency and Finance, issued last July, disclosing the purposes of the British Government to adopt for India, without substantial change, the Federal reserve system now in operation with us. To do this, and in order to put it in force, they propose to decoin, to demonetize more silver, in the form of rupees, than all the silver mines on earth have produced in any three-year period, this to be replaced by Indian federal reserve notes as a circulating medium, which, as with us, will bear interest. It is estimated that 10 years will be needed to do this.

It is impossible to realize the power over the lives of men that this system will be able to wield, once it is established. It has demonstrated its power to discriminate between sections, classes, and industries, in a relatively small way, as compared with the possibilities of a cooperative international system. The economic, industrial, social, cultural, and political development of states and peoples will be determined by a super-senate recording the decree of the "bankers' alliance." Suppose some state objects to a plan upon which to base its credits or issue its currency on the debts of some other state instead of its own material wealth. Or let us presume the nation or state proposes to raise its public revenue and develop its natural resources by a tax upon imports. Or, what if a nation forms, or seeks to form, reciprocity arrangements with other states for mutual economic advantage, contrary to the interests and wishes of the bankers' alliance? Or suppose America or any other nation should want to throw off the mythical gold standard against the wishes of the credit monopoly. Why, its credit is cut off, markets are closed, a bankers' alliance is set up, and, so far as organized bankers can accomplish it, the naughty state or nation is disciplined. We do not need to cross the seas to find instances that illustrate this principle. Mexico and Nicaragua might find much of their trouble with our big Republic vanishing once they came into the gold standard camp. "But this discipline is impossible," some one says. All of these things were done, and more also, to the people of my own State, done by the men who have crowded the lobbies and the galleries of this Capitol with their agents and emissaries to force through the passage of this bill. In North Dakota we know what organized credit dispensers can do and do do when they are not pleased. This bill is a complete demonstration that the prime, if not the sole, function of politics is the distribution of wealth under the prevailing order.

The point of difference between the two branches of Congress regarding the termination of the chartered life of the system is utterly immaterial and meaningless. It is reasonably certain that no Member of the present Congress, in either branch, will live to see the New Year's Day of 1984. I therefore confine my suggestions on this feature to the possibility of Congress dissolving the charters of these banks prior to that time as, it is claimed, is easily possible in case of good cause. It is quite safe to believe that any action by the Congress formally dissolving the charters of these banks would be contested in the courts.

We have had some experience with the facility with which our highest courts have expressed judicial solicitude for the protection of property and property rights. We have seen our Supreme Court convert a political privilege into a property

right. We have seen the same court reverse its numerous decrees in cases growing out of the antitrust laws, and plaintively inquire as to what "will become of foreign trade that has developed and exists." We have seen that court legislate by the exercise of a veto power to defy the will of Congress and the people.

It is vain to prophecy as to the time when a long-suffering people may combine their political power to throw off the burdens imposed by this monopoly of all monopolies or even to estimate the probable capital value of the powers that are granted by this bill; but, Mr. President, it needs no prophet to foresee such a revulsion of public opinion as will force the Congress to dissolve the charters of these banks. The next scene in the drama then will be enacted in some court room unless there be another Jackson in the White House. Never in the history of all the courts of the world was there ever tried a case involving issues of such inestimable money value as those that will depend upon the outcome of the inevitable trial of the power of Congress to forfeit or dissolve these charters. With present tendencies toward exaltation of the power of wealth in public affairs continuing at the rate now in action, there can be no reasonable expectation that this expression by Congress will have any force. If Congress intends to reserve its powers, it had better refuse to delegate them.

There is a little sugar in this bank bill for the people. It provides for the appointment of a joint special committee to inquire into the prices of commodities in the United States since 1914. The way the consideration of this bill has been forced has precluded a presentation in fair debate of a full and complete analysis of all the facts relating to the matter which ought to be inquired into before this bill is passed, just as has been suggested by a distinguished scientific economist who has made a special and elaborate study of the subject. Prof. John R. Commons, of the University of Wisconsin, made a statement on February 4 before the Banking and Currency Committee of the House of Representatives, showing conclusively the influence upon commodity prices in the United States of the activities of the Federal Reserve Board, and demonstrated the necessity of withdrawing from the board its discretionary power over discounts. I venture the assertion that no Senator can claim to be fully advised as to the merits of this bill unless he is familiar with Doctor Commons's statement, and I ask unanimous consent that the record of that hearing, as contained in the pages of the United States Daily, may be printed at the conclusion of my remarks as a part thereof.

The PRESIDING OFFICER (Mr. BINGHAM in the chair). Is there objection? Without objection, the matter referred to will be printed as a part of the remarks of the Senator from North Dakota.

[See Exhibit A.]

Mr. NYE. Mr. President, the agonies, the suffering, of thousands of my constituents are too recent. The outcry of their resentment still rings in my ears. I should be unfair to myself and unfaithful to my people if I allow this bill to be considered in this Chamber without raising my voice in protest.

You ask me for suggestions looking toward a solution of this problem. While in no way regarding myself as an expert in high finance, I have in my own thought applied to this problem exactly the same principles that I apply to all other forms or types of monopoly. It is my conviction that in every instance when there is a profit, a material advantage, to be derived from the operation of any function of government such profit belongs in equity and fairness, in all good conscience and in economic truth, to the government whose right is so exercised. We have classic authority for the declaration that the holders and operators of government rights were complained of as having "converted the public revenue into private property and thereby ruined the State." Until we can secure to the people the public or government functions of money and credit, until the public resumes control of these functions from those to whom it delegated these powers, we shall continue to suffer the abuses that mark the course of our history as a Nation.

Mr. President, every Senator who on last Friday gave his vote in support of the interests of the farm people of America should, as I see it, be found voting against this vicious bill granting monopoly to our money and credit machinery. There were 47 votes in the interests of agriculture and our national interests then. There ought, in the name of consistency, to be 47 or more votes recorded against this banking bill. I predict that the time will come, and come soon, when the people of America will go gunning with bullets of ballots for every elective individual who lends a hand in the passage of this bank bill.

Limitation of debate on this subject is most unfortunate, but, as I have previously remarked, not at all surprising. Healthy

institutions or lives do not shy away from the light of day as the Federal reserve banking system seeks to shield its history from light, at least until its life is insured and secured for another 60 years.

In conclusion I am merely going to request that an article appearing in the January 19 edition of the North Dakota Non-Partisan under the heading "Reserve bank broke farmers, says Harding" may be printed at the end of my remarks.

The PRESIDING OFFICER. Is there objection? Without objection, the article will be printed in the RECORD.

[See Exhibit B.]

Mr. NYE. Mr. President, but a few years ago my very illustrious predecessor, Senator Ladd, had interested himself in this question of the Federal reserve bank money and credit system in a way that made him an authority in the United States. Some one wrote him a letter and asked him four or five or six specific questions relative to the Federal reserve banking system. The Senator responded in a most able manner, and I ask to have those questions and answers of Senator Ladd printed at the conclusion of my remarks.

The PRESIDING OFFICER. Is there objection? The Chair hears none, and without objection the matter referred to will be printed in the RECORD.

[See Exhibit C.]

EXHIBIT A

RESERVE BANKS DECLARED ABLE TO GUIDE PRICES—ALSO IN POSITION TO GOVERN MONEY MARKETS, SAYS DOCTOR COMMONS AT HEARING ON STRONG BILL—FLUCTUATIONS CALLED DETRIMENT TO LABOR—WITNESS SAYS POWER TO DEFLATE OR INFLATE IS GAINED BY DEALING IN SECURITIES IN OPEN MARKET

The Federal reserve banks, under certain conditions, through their open-market operations in buying and selling Government securities, can control the money market and thereby affect the business structure of the country, Dr. John R. Commons, of the University of Wisconsin, told the Banking and Currency Committee of the House at a hearing on February 4. (Publication of the stenographic transcript of Doctor Commons's testimony is begun on page 9.)

Doctor Commons testified with regard to the bill (House bill No. 7895) proposing to amend the Federal reserve act so as to direct the Federal reserve system to so use their powers to fix such rates of discount as will accommodate and stabilize commerce, business, and agriculture. It is proposed that all of the powers of the Federal reserve system shall be used for promoting stability in the price levels of commodities.

"The Federal Reserve Board in controlling the demand, supply, and price of credit," Doctor Commons stated, "is in a position to deflate or inflate commodity wholesale prices in accordance with what they consider the best public policy."

Asked if the board, by adopting certain policies, could inflate or deflate the price of corn or wheat, Doctor Commons replied, "Only as it affects the general average of all commodities. It has power to control the total volume of credit but not the distribution to the separate commodities."

The stabilization bill was introduced by Representative STRONG (Republican), of Blue Rapids, Kans. He announced at the beginning of the hearing that he had sent two drafts of the bill to economists and financiers, and that following their suggestions he had redrafted the bill. He introduced into the record his third revision of the measure.

Doctor Commons stated that he was interested in the problem of the stabilization of prices from the standpoint of labor. "From the labor standpoint," he said, "the fluctuations of prices are the greatest evils affecting labor."

"Inflation," he said, "brings demoralization, and the consequent deflation brings pauperization."

No legislative guide has been set down, Doctor Commons said, by which the Federal Reserve Board shall use its powers. He asserted that the proposed measure would supply the guide by which discount and interest rates would be fixed so as to stabilize the general level of prices of commodities.

FLUCTUATIONS OF PRICES CALLED EVIL TO LABOR

Since 1919, it was explained by the witness, there have been three periods of inflation and deflation of prices. The first he attributed to the consequent deflation following inflation during the war period. Over that period, Doctor Commons stated, the Federal Reserve Board had no control. He asserted, however, that later the board, through its operations of buying and selling Government securities, did knowingly control wholesale prices.

Doctor Commons explained that so long as the gold reserve of the Federal reserve banks nears the 40 per cent legal limit, as was the situation in 1919 and 1920, the Federal Reserve Board is compelled to adopt a policy which will bring deflation.

Otherwise, he said, they are unhampered as to whether they will adopt policies bringing either deflation or inflation. He declared the

board could have stopped the deflation in 1919-20 before it reached the low level.

The members of the Federal Reserve Board, Doctor Commons said, did not know of its economic power, exerted through the open-market operations with Government securities, before 1922 and 1923. Following the experience gained at that time, he said, the board realizes it can control market conditions.

About that time, he explained, the 12 Federal reserve banks bought, independently in the open market, a considerable volume of Government short-time securities. That operation, he contended, reduced the earnings and the rediscounts of the member banks of the Federal reserve system. After these Government securities were sold by the 12 head banks, he pointed out, the rediscounts of the member banks increased and their total assets remained practically the same. Following another purchase of Government securities, he indicated on a chart, the rediscounts again fell off in volume.

EXPERIENCE SAID TO SHOW BOARD CAN CONTROL MARKET

The 12 Federal reserve banks purchased the Government securities in the open market from brokers, Doctor Commons explained. The bonds were paid for by checks on themselves. The broker would then deposit the checks in some Federal reserve member bank, it was stated, and thus the member bank could augment its reserve with the head banks.

Every dollar of credit, Doctor Commons said, which the member bank obtained from 1 of the 12 head banks, through the increase of the reserve of the member bank with the head bank, enabled the member bank to increase its lending ability to the public about eightfold.

Doctor Commons's contention is that by the purchase of Government securities by the Federal reserve banks, the reserves of the member banks were augmented and the volume of money was materially increased. Referring to the purchase of securities in 1922, the purchases "caused the member banks to get out of debt. They were then more free to loan."

While this operation was going on, he said, the interest and rediscount rate was declining a total of 20 per cent. "The banks have more money to loan," Doctor Commons said, "and they can do so at less interest."

FIXING OF REDISCOUNT RATE IS EXPLAINED

Speaking of the rediscount rates fixed by the Federal Reserve Board, Doctor Commons said it is contended the fixing of the rediscount rate follows the market. While this is ostensibly the situation, he said "the Federal reserve system first prepares the market through its operations and then creates the rate. It first prepares the market and then follows it."

The open-market buying of Government securities is a potent influence in fixing the rediscount rate, Doctor Commons said, in reply to a question, so long as the gold reserves of the banks is not down to the 40 per cent legal limit.

When the Federal Reserve Board found out in 1923 its economic power through this operation, Doctor Commons asserted, it adopted a rule that sales and purchases of Government securities should be made in consideration of the effect of the general credit situation. The bill proposes that they shall be made with regard to the effect on the wholesale prices of commodities.

Besides the open-market operations of the 12 Federal reserve banks in purchasing and selling Government securities, Doctor Commons stated that other factors which could be used to control the demand for credit are the rediscount rates, publicity of conditions, private advice by member banks to customers, and the working rule that member banks do not loan from the Federal reserve banks in excess of their credit reserves.

PUBLICITY URGED AS FACTOR FOR CONTROL OF CREDIT

Doctor Commons discussed the objections which had been raised to his contentions. He said these objections included, first, that business psychology determine the demand for credit; second, that the rate of discount is only a small item in the cost of production, and so has no effect on the price level; and, third, that as a result of these factors the Federal reserve system follows the market in fixing discount rates.

The stenographic transcript of Doctor Commons's statement and answers to questions follow:

"Doctor Commons. Mr. Chairman and gentlemen, I am not an expert in banking. My interest is mainly in labor. I became acquainted with the evils of the fluctuation of prices in 1919, and have been following it up since that time, making such acquaintance as I could with bankers, especially with people at the Federal reserve bank in New York and at the Federal Reserve Board, and interviewing bankers in different parts of the country:

"Now, the interest that affected me with reference to labor was shown by one or two incidents that I came across.

"In the summer of 1919 I was studying the labor market in New York, especially in the clothing industry; and I got together representatives of employers and the employees, the trade-union, to verify

the facts regarding wages. To give you one illustration: I found that one presser, who does finishing work on a coat, was being paid \$125 a week in 1919. The union scale was \$50 a week. The union had adopted a rule that no member could accept more than \$50.

EMPLOYERS SAID TO HAVE HIDDEN WORKERS

"The employers were in such keen competition with each other that they not only boosted the wages away above the union scale, but they adopted all kinds of methods to prevent the union from enforcing its rule. The union had a committee to arrest its members and penalize them by taking over to the union all that they might get in wages in excess of the union scale of \$50. The employers secreted these laborers so that when the union committee came they could not find them. In other words, here was a mechanic who, prior to the organization of the union, was working for \$25 a week. By union agreement with the employers he was working for \$50 a week, yet, owing to this tremendous inflation, the employers were pulling against each other and were pulling against the union, and put the wages up to \$125 a week. Within a year after that time that laborer was on the street unemployed, without any wages.

"Now, another illustration: In Cleveland, Ohio, I found this fact, that in the summer of 1919 I had three instances given to me by Colonel Ayres, at that time of the Cleveland Trust Co., three instances where truck drivers upon the streets of Cleveland having accidents—an axle broken or something like that, a tire injured on the streets—they didn't stop to get any repairs done; they simply deserted their trucks on the street and went and got a job with some competing firm, immediately got a job; there was such a demand for them. Within a year these truck drivers were idle due to the unemployment.

"So, this fluctuation of prices, from the labor standpoint, I consider the most serious of the evils that affect labor in this country. It, first, by this inflation of prices, demoralizes labor; they lose all sense of responsibility for their jobs.

"Then in the deflation it pauperizes them. So, we have an alternation of demoralization and pauperism which affects our labor class owing only to this fluctuation of prices.

"Now, another thing I would like to remind you of, that you doubtless are familiar with, and that is that in the first draft of the Federal reserve act the bill, as it came from the Senate, contained certain instructions to the Federal Reserve Board as to how it should use its powers. There were two instructions. It was to use its powers, all its powers which were granted by Congress, to accommodate business and commerce; and there was another clause, 'to stabilize the general price level.' That was the form in which the bill came from the Senate.

INSTRUCTION DECLARED ELIMINATED IN CONFERENCE

"The first instruction, to accommodate commerce and business, was in the House bill; but it didn't contain the other instruction, to stabilize the general price level. In the conference between the two Houses the instruction to stabilize the price level was stricken out, so that the bill as it came from Congress gave only this instruction as a guide to the Federal Reserve Board, which it was giving to the Federal reserve system. I prefer to say, instruction to the Federal reserve system—the only guide or legislative rule laid down to guide the conduct of the Federal reserve system—was 'to accommodate commerce and business.'

"Now, I submit that there is no administrative body created to carry out the instructions of Congress that has been given such unlimited, unspecified instructions, simply 'to accommodate commerce and business.' Take any of the administrative regulations which this Congress has placed upon administrative officials. Take the tariff, for example. The President is given authority to change the tariff under certain circumstances, but he is given a very definite rule. He must take a finding of fact, namely, that a foreign country is practicing a dumping process; and when he finds that a foreign country is practicing a dumping process, which must be based upon his investigation and an ascertained statement of fact, then he has the authority to change the tariff to meet that dumping practice. Then you take all your commissions, administrative bodies, which you have created. I think you will find that Congress has laid down some standard—the Interstate Commerce Commission, the Federal Trade Commission—there have been some standards of reasonableness and right administrative authority that they are expected to adhere to. But here is a system and a board to whom you have given no standards at all.

PROVISIONS OF BILL EXPLAINED BY WITNESS

"Now, to give you a practical application of the results of that I refer to this bill. There are two sections. The Federal Reserve Board and the Federal reserve banks, by which I mean the Federal reserve system, which will include the member banks, they are instructed to stabilize so far as may be the purchasing power of the dollar in terms of commodities in general. Then it goes on and says that whenever any decision affecting or tending to affect this power that is given, when any decision is made by a Federal reserve bank or any of the

authorities that has an effect on this price level 'such decision and the reasons therefor shall be published immediately and minority opinions of those dissenting from such decision or reasons shall be published simultaneously.' Then there is provided that in case that the public shall be injured—I suppose it refers to a state of war—the Government may withhold publication.

"Mr. STRONG, Doctor, I might call your attention to the fact that that is an alternative suggestion of an amendment.

"Doctor COMMONS. I am going to illustrate it by a case of what might have happened in 1919 and 1920.

"Representative McFADDEN (Republican), Canton, Pa., chairman. Before you do that let me get it perfectly clear that you are now discussing the Strong bill, House bill 7895.

"Doctor COMMONS. Yes. That ought to go in the record. I have been reading from the third revision of January 30, 1927, of House bill 7895, Sixty-ninth Congress, first session.

SAYS MEMBERS OF BOARD FORESAW DEPRESSION

"Supposing that prior to 1919 we had had these two provisions in the Federal act, first, to stabilize the price level, and second, to give your reasons for it and the minority reasons. What I wish to say to you is given to me in confidence by a member of the Federal reserve. I, of course, will not give his name. He and another member of the Federal Reserve Board in 1919 and 1920 understood what they were doing; they were inflating prices and were going to bring about a terrific depression. They knew it. They were economists enough to know what they were doing.

"They protested in the Federal Reserve Board against what was being done by the Federal Reserve Board at that time, knowing the consequences that would follow. They considered for a time whether it would not be better for them to offer their resignations and then give their reasons to the public for resigning at that time. They finally agreed to go along with the system, the majority, and simply to file their reasons in the records of the commission, so that in case the question was raised after their death their record would be clear. That is what they did, I understand.

"Now, there may be another authority, the Overman Act. I don't know whether that had expired or not at that time. At any rate, the inflation went on; and as you will see by my chart there, on which I have indicated the wholesale price level—I have some reproductions of that chart that I would like the members of the committee to have—

"The CHAIRMAN. I think, inasmuch as you are referring to the chart which appears on the wall, I am going to suggest that the chart be placed in the record at this point.

"Doctor COMMONS. Will it be satisfactory if I place this reproduction of it in the record?

"The CHAIRMAN. Yes.

"(The chart referred to will be printed in the issue of February 7.)

"Doctor COMMONS. May I have this marked as an exhibit?

"The CHAIRMAN. It will be marked as 'Exhibit 1' in the record.

"Doctor COMMONS. I should like to direct your attention to the curve marked 'Wholesale prices.' I shall have a good deal to say about that, if you will allow me, a little later, as to how that is constructed; but in general that is the price index of the Department of Labor, containing some 404 commodities. It is an average, using the year 1913 as a base, calling the prices of 1913 '100' so that when the general average of all prices moves up and down, it will be indicated as a percentage of 100, '100' referring back to the year 1913.

"In July, 1920, prices rose to 247. That was 147 per cent higher than they were in 1913. Then there was a deflation which started in 1920. I have put the figures in pencil on my chart on the wall. I wish I could give you the figures. At the end of 1921 the price level had reached 138. That was 38 per cent above the pre-war level, whereas in June it was 147 per cent above the pre-war level. It moved up rapidly in 1922 from 138 to about—may I get that from the chart? At the end of 1921 the price level was 138, which means 38 per cent above the level of 1913.

"The CHAIRMAN. Speaking now of the wholesale prices?

"Doctor COMMONS. The wholesale-price level of the Department of Labor, 404 commodities rated according to their relative importance.

"You notice a very rapid inflation started at the beginning of 1922, and by May, 1922, had reached 155—had gone up from 138 to 155. That was 17 points, possibly an inflation of 15 per cent. You will notice that it stopped at that point, but continued until March, 1923, when it stood at 158 per cent.

"At that time deflation occurred, and that continued until July, 1924—June and July—until it had reached 145, or 45 per cent above the pre-war level. Then another inflation started. From 145 it reached in February or March, 1925, 161, a change from 45 to 61, which would be 16 points, or 10 per cent of the whole, about an average of 10 per cent. These are the Department of Labor figures."

(To be continued in the issue of February 7)

[From the United States Daily, Monday, February 7, 1927]

FLUCTUATIONS IN WHOLESALE PRICES ATTRIBUTED TO OPERATIONS OF FEDERAL RESERVE SYSTEM—TRADE IN SECURITIES SAID TO CONTROL CREDIT—EXPLANATION OF INFLATION AND DEFLATION MADE AT HEARING ON STRONG BILL—DOCTOR COMMONS HEARD BY HOUSE COMMITTEE—SAYS BOARD CAN INFLUENCE AVERAGE PRICES, BUT NOT THOSE FOR SPECIFIC COMMODITIES

The stenographic transcript of the testimony given on February 4 by Dr. John R. Commons, of the University of Wisconsin, before the House Committee on Banking and Currency, at a hearing on the Strong bill (House bill No. 7895), to amend the Federal reserve act, is continued below. Publication of the transcript was begun in the issue of February 5. In that section, Doctor Commons said the Federal reserve board, through control of credits, is able to exercise control over wholesale prices of commodities. He also said fluctuations in prices in recent years were traceable to inflation and deflation caused by trading in Government securities in the open market by the Federal reserve banks. The transcript continues:

"A deflation started in February, 1925, and moved down until—if my last figures are correct—it got from 161 to 150.

"Mr. CANFIELD (Democrat), of Batesville, Ind. When did it get to \$150?

"Doctor COMMONS. In November or September of 1926. The Department of Labor figures came out about two months later. If my chart is right, that was when it was.

"Now, you will notice three inflations and deflations which the Federal reserve system has conducted. It conducted an inflation here and a deflation—

"The CHAIRMAN. That is to say, in 1919 and 1920?

"Doctor COMMONS. In 1919 and 1920 it conducted an inflation, going up to 247. In 1920 and the end of 1921 it conducted a deflation from 247 down to 138. In 1922 up to May, 1923, they conducted an inflation from 138 to 158. From May, 1923, to July, 1924, they conducted a deflation from 158 to 145. From June and July, 1924, to February or March, 1925, they conducted an inflation—

"The CHAIRMAN. Won't you explain to the committee, Doctor, how they conducted that campaign?

"Doctor COMMONS. That is my whole proposition—to explain how that occurred.

"Mr. STEAGALL (Democrat), Ozark, Ala. Let me interrupt you for half a minute. I didn't get all you have said. You are speaking of 'they.' Who do you mean by 'they'?

"Doctor COMMONS. The Federal reserve system, this new Federal Reserve Board and the Federal reserve banks, the 10,000 banks.

"Mr. STEAGALL. I didn't mean to interrupt you.

EXPLANATION PROPOSED OF CAUSE OF FLUCTUATIONS

"Doctor COMMONS. I am laying out the program, and then I propose to show how each of these inflations and deflations was conducted, to show the instruments which they used in their operations.

"To complete that statement: The deflation has been from the early part of 1925 down to the present time.

"I want also to say that this showing depends altogether on the way in which that index number is composed. If I had added to wholesale prices such things as wages, rents, retail prices, if they had been included, they would make a different curve. I shall explain that a little later. But I consider this a key to the whole situation—the wholesale prices.

"Now, first I will begin at this point, 1922, with this inflation. This preceding inflation and deflation had so many consequences and were effected so by the war policy and the policy of the Treasury that it is not proper to say that the Federal reserve system as such was at liberty to regulate the price level as it shows. I will say that not until this period in here, 1921, was the Federal reserve system liberated from control by the Treasury Department so that from beginning here they were perfectly free of the influence of the Treasury Department.

"The CHAIRMAN. I hope, Doctor, that when you make your explanations you will show how the influence of the Treasury was exerted.

"Mr. STEVENSON (Democrat), Cheraw, S. C. That brings up this question right here, which I would like to ask: Did the Treasury Department dominate the course in 1920, when that tremendous deflation occurred?

DEFLATION ATTRIBUTED TO TREASURY ACTION

"Doctor COMMONS. Yes. In order to sell Victory bonds at a low rate of interest they caused the inflation.

"Mr. STEVENSON. I wasn't speaking about deflation. I was speaking about the deflation that occurred in the latter part of 1920 and 1921.

"Doctor COMMONS. I consider that the deflation was inevitable after the inflation.

"Mr. STEVENSON. You think that was just a collapse from inflation?

FLUCTUATIONS LINKED WITH CREDIT CONTROL

"Doctor COMMONS. If you have one of these inflations, it follows mechanically and necessarily that you must have a deflation, and the

sole argument of stabilizing the price level is to prevent inflation in order to head off deflation.

"Mr. STEAGALL. Well, your former statement indicates that that rule does not work both ways. If deflation inevitably follows inflation, then what we want is simply to prevent inflation? Is that your view?

"Doctor COMMONS. My contention is this: If I can show you gentlemen that the Federal reserve system controls the demand for credit and the supply of credit and the price of credit, that they can, controlling those three elements which make up all that goes to constitute the price level, they are in a position by their action to inflate or deflate at any point which public policy may decide is a good place to stop at.

"Mr. STEAGALL. I am in hearty accord, so far as I know, with your statement in that respect, but a moment ago you said that you would get away from the 1920 and 1921 variations in the price level because of the fact that the Treasury controlled the Federal reserve system in conducting the finances of the war, and that that brought about the inflation.

"Doctor COMMONS. Yes.

"Mr. STEAGALL. And that the deflation of 1920 and 1921 inevitably followed the inflation?

DEFATION DECLARED INEVITABLE RESULT

"Doctor COMMONS. Yes.

"Mr. STEAGALL. Now, what I am asking you is this, if it is true that the rule works both ways? If deflation invariably follows inflation, then you remedy the whole situation if you prevent inflation, don't you? But I understand you to say now that the Federal reserve system has the power, or those controlling the Federal reserve system, to bring inflation from deflation. Is that right?

"Doctor COMMONS. Perhaps my terms are inconsistent. This inflation here has reduced the reserve ratio of gold down to the legal limit, practically 40 per cent, so that they had no discretion and must start a deflation in order to maintain the legal gold reserve ratio of 80 per cent.

"Mr. STEAGALL. That had not gone beyond the legal limit?

"Doctor COMMONS. No.

"Mr. STEAGALL. Couldn't that have stood there as well as go down?

"Doctor COMMONS. I will say this: That if they had known as much in 1920 as they learned in 1922 and 1923, they could have kept the price level at pretty near where it stood in 1920. They have learned by experience—and that is what I propose now to show—they got their experience—they learned by experience to know the power which they had, which they didn't know then.

"Representative BRAND (Democrat), of Athens, Ga. May I ask a question without interrupting you very much?

"Doctor COMMONS. Yes.

"Mr. BRAND. Isn't it true that they have the power by the adoption of a certain policy to inflate or deflate prices of any of these products?

HOLDS BOARD CAN CONTROL AVERAGE OF PRICES

"Doctor COMMONS. The average of all products. I don't think they can affect any particular prices. Just the average.

"Mr. BRAND. Can they by adopting a certain policy, for instance, inflate or deflate the prices of corn, cotton, and wheat?

"Doctor COMMONS. Only as it contributes to the general average of the 400 commodities.

"Mr. BRAND. Well, the Secretary of Agriculture, testifying before this committee, at one time answered that question in the affirmative. He said they could. Governor Strong (of the New York Federal Reserve Bank) was present at the time, and he vehemently denied it. Now, what is your judgment?

"Doctor COMMONS. I shall take that matter up a little later, if you will allow me, under this question. They have power to control the total volume of credit, but they don't have power to control its distribution amongst the different commodities.

"Mr. BRAND. I am not talking about that; I am talking about increasing or deflating the prices of farmers' products. That is what I had in mind. I want your judgment on that.

"Doctor COMMONS. I will answer that fully and completely.

"Mr. STEAGALL. Before you leave that, I have just one other word. You would not say that the deflation in 1920 and 1921 was not in any measure traceable to the policies of those controlling the Federal reserve system?

"Doctor COMMONS. It necessarily depends upon their action.

"Mr. STEAGALL. That is just what I am getting at. You said a minute ago that it inevitably followed inflation.

"Doctor COMMONS. My point is—

ADOPTION OF POLICY DECLARED NECESSARY

"Mr. STEAGALL. I am wondering if you didn't express yourself just a little bit unhappily in that respect and differently from what you really feel about it.

"Doctor COMMONS. Put it this way: How does this suit you? When the gold reserve was down to 40 they had no discretion as to the policy

that they would follow. So, when I say that deflation inevitably follows, I meant that they were compelled to adopt a policy—

"Mr. STEAGALL. Would this be—

"Representative FENN (Republican), Wethersfield, Conn. Let him answer.

"Mr. STEAGALL. When they reached the limit of the gold reserve they simply could have permitted it to have remained right there; they could have stopped right there if they saw fit?

"Doctor COMMONS. They could have.

"Mr. STEAGALL. But what they did was to turn around and deflate?

"Doctor COMMONS. Yes.

"Mr. STEVENSON. The interest rate which was imposed by the Federal Reserve Board would certainly have tended to bring some deflation?

"Doctor COMMONS. Yes.

"Mr. STRONG. Let him finish his answer.

"Doctor COMMONS. I think—put it this way: If they had known what they learned in 1922 and 1923, they could have stopped that deflation before it got down to 138. They could have stopped it.

"Mr. STEAGALL. I don't agree with you that the deflation of 1920 inevitably followed the inflation. I think in my mind that the tightening up processes turned on by the Federal reserve system had its part in the deflation that followed. I am going back to the facts; I am not finding fault with anybody. I think the trouble with them was that they didn't know as much then as they did afterwards. We were dealing with unusual conditions. We didn't have the experience that we have got now. But I have always been sure in my own mind that some of that deflation came from the policies—

"The CHAIRMAN. Might I suggest: This is all very interesting, but Doctor Commons's time is limited and the time of the committee is limited. You are making a very interesting statement; but I would suggest that we all make notes and ask our questions after Doctor Commons finishes his statement. If it is agreeable to the committee, I think we will get a better statement from Doctor Commons and won't take up so much of his time with questions.

"Mr. STEAGALL. That will be all right.

EXPLANATION OFFERED OF 1922-23 OPERATIONS

"Doctor COMMONS. Coming back, now: I propose now, gentlemen, to explain the operations of 1922 and 1923 whereby they learned their economic power to control. You will notice here this line which indicates the securities held by the reserve system had not changed very much during the preceding years, but that beginning in the year 1921 up to May, 1922, they increased their purchases of Government securities \$400,000,000. Now, that was done in actual ignorance of the economic effect of what they were doing. I think nobody upon the reserve system—and I have been advised by those people—nobody knew what would be the effect of that purchase of securities. In the first place, the purchase was made independently by the 12 reserve banks. They did it for this reason: That their earning assets were falling off. This line shows the rediscounts or the discounts by member banks; and that had fallen off tremendously; and that, of course, reduced their earning assets, so they had a reserve of 80 per cent gold.

SAYS EARNING ASSETS WERE DIMINISHED

"It would naturally occur to them, how can we make that gold reserve bring an income to us? So, without any concerted action at all, they individually, as 12 banks, went out and invested their what you might call gold in the form of buying Government securities so that it would be earning assets.

"Now, what was the effect of that? Instead of increasing their earning assets they actually reduced their earning assets by doing that. This line here is what I call the total earning assets. You will notice that although they purchased \$400,000,000 of Government securities—

"The CHAIRMAN. In 1922?

"Doctor COMMONS. In 1921 up to May, 1922, that the member-banks reduced their borrowing by an amount greater than the increase in the purchases of Government securities, so that the total earning assets of the reserve banks actually declined. They could not earn money; they could not earn profits by buying Government securities. Their earning assets diminished.

"That is the key to the whole thing. Why should the member banks reduce their borrowings when the banks started out to buy securities? Now, you will notice, following that line through, that that has proven to be a rule every time. When they sell securities, as you will see by this line, the banks begin borrowing.

"The CHAIRMAN. You mean the 12 Federal reserve banks?

"Doctor COMMONS. I mean the 12 Federal reserve banks buying Government securities. When they sell them—here they sold four hundred millions of securities—

"Mr. STRONG. Doctor, in order that the record may be kept straight, when you say 'here' and point to something, will you describe what you are pointing at?

"Doctor COMMONS. All right.

"Beginning in May, 1922, up to July, 1923, they sold four hundred millions of Government securities. Now, for some reason that forced

the member banks to come and rediscount; and during that same period the member banks increased their borrowings \$500,000,000. So their earning assets remained about the same, but their composition changed enormously.

"Mr. STEAGALL. May I interrupt you for one question there?"

"Doctor COMMONS. Yes."

"Mr. STEAGALL. Are you sure which one of those—"

"Doctor COMMONS. Was cause and effect?"

CAUSE AND EFFECT OF CHANGE NOTED

"Mr. STEAGALL. Was cause and effect? You have stated it better than I could have done. Which one was cause and which one was effect? Are you sure of that?"

"Doctor COMMONS. I am sure that this was cause and this was effect [indicating]."

"Mr. STEVENSON. It is perfectly patent that when the Federal reserve bank is buying a lot of these securities the money that is going for most of the bonds will be deposited in the member banks, and that increases the capacity of the member banks. On the other hand, when the Federal reserve banks begin selling the securities and the member banks begin buying, they are drawing money out of the member banks, and that causes them to rediscount. Isn't that the reason?"

"Doctor COMMONS. That is a summary of it. I was going into the details."

"The CHAIRMAN. I want to call your attention to the fact that the second line from the bottom is not clearly defined here."

"Doctor COMMONS. That is the rediscount line."

"The CHAIRMAN. I understand that that is the rediscounts of the member banks?"

"Doctor COMMONS. Yes, sir."

"The CHAIRMAN. What is this third line?"

"Doctor COMMONS. That third line is the market rediscounts. You should follow the curve of that line. That will give the borrowings of member banks at the Federal reserve bank. Notice these two together. They start in 1923 and buy Government securities during that period up until October, 1924, when they had bought \$440,000,000 of Government securities. During that same period the member banks paid off their indebtedness to the Federal reserve system, and they reduced their indebtedness \$100,000,000. I should say that the difference is explained largely by the imports of gold. Taking the imports of gold and the increase of securities, they reduced their indebtedness to the reserve bank, the member banks—the 10,000 member banks—reduced their indebtedness to the reserve banks by \$800,000,000."

"The CHAIRMAN. When you refer to the purchase of Government securities, what class of securities do you mean?"

"Doctor COMMONS. Usually short-term securities is what they have invested in mostly. I think they are two-year securities."

"The CHAIRMAN. Temporary certificates?"

"Doctor COMMONS. Temporary certificates."

"Now, beginning in October, 1924, they began selling securities. Notice that they stopped purchasing and began selling them; and notice that the rediscount rose a few figures at that point. I should say that these figures are taken from Governor Strong's testimony before this committee, which I have gone very carefully through and reproduced them in this chart."

"Representative LUCE (Rep.), of Waltham, Mass. But there is no such coordination since November, 1924, as there was in that period from 1922?"

"Doctor COMMONS. No."

"Mr. LUCE. How do you explain that?"

"Doctor COMMONS. I can't explain that. I can't explain it at all."

"Now, let us notice the effects here. I will turn to the point made by the gentleman. What causes them to reduce their borrowings; what causes the member banks to reduce their borrowings when the Federal reserve bank buys securities? Notice how it was accomplished. The Federal reserve banks have, we will say, large gold reserves. They want to buy upon the open market 400,000,000 of Government securities from the broker. They purchase 400,000,000 of securities by simply drawing checks practically upon themselves, upon the member banks, and pay that check over to the broker. If they buy \$1,000,000 in securities from a broker, that means that they have paid that broker a check drawn upon themselves for \$1,000,000."

DEMAND LIABILITIES INCREASED BY CREDIT

"Now, what does the broker do with it? The broker deposits that check at once in a member bank. That augments the reserve of that member bank at the Federal reserve bank by \$1,000,000. Now, in general, it turns out that on the average, as near as I can make it out, every dollar of reserve that a member bank has in the form of a gold reserve, not a gold reserve but a credit reserve, at the Federal reserve bank enables that bank to increase its demand liabilities \$8, \$8 or \$9. This is shown by this figure here."

"The CHAIRMAN. The demand deposits?"

"Doctor COMMONS. The demand deposits."

"Mr. STEAGALL. The line of demand deposits?"

"Doctor COMMONS. The line of demand deposits. Here we have a study of what that means. I will tell you how that is accomplished."

"The CHAIRMAN. Doctor, before you finish, won't you tell us where the broker gets the securities which he sells?"

"Doctor COMMONS. Well, it is from the general public or the open market. The brokers have them from customers who have Government securities and are willing to sell them."

"The CHAIRMAN. The point I am trying to get at is, it might be the member banks?"

"Doctor COMMONS. It might be the member banks? Yes. I haven't thought about that—how much that will affect it. My idea is that it is an open-market operation. They go out and buy them. It may be from the member banks. In other words, when the member bank holds a million dollars of Government securities in its vaults, that is not a reserve on which it can lend anything; but if it can turn a million dollars over to the Federal reserve system, then it has augmented its reserve at the Federal reserve system a million dollars, and consequently it can increase its lending ability to the public eight times as much, or \$8,000,000."

"Mr. STEVENSON. Well, I don't understand, Professor, the difference between the Federal reserve buying Government securities and buying in open markets. I don't understand."

EFFECT DECLARED TO BE THE SAME

"Doctor COMMONS. It would have the same effect; but they are not doing that on their own initiative. They did for a while, but I believe they are not doing much of that on their own initiative. They fix a rate, and then leave it to the public to rediscount at that rate."

"Mr. STEVENSON. But the rule would be the same?"

"Doctor COMMONS. But in the case of the securities, they recently adopted a policy of buying and selling on their own initiative and not waiting for member banks to rediscount."

"Mr. STEVENSON. Don't the Federal reserve banks, especially in New York and other great centers like that, show in their statements every week that they own so much, that they have bought so much of these acceptances that they are allowed to buy in the open market?"

"Doctor COMMONS. The reserve banks?"

"Mr. STEVENSON. The Federal reserve banks."

"Doctor COMMONS. Yes."

"Mr. STEVENSON. When they do that they turn the money loose and it comes into each one of the member banks, just the same as if they had bought Government bonds?"

"Doctor COMMONS. I think the way I have drawn my figures this will appear as rediscount acceptances here. I have endeavored to separate on this chart this line of securities, which depends solely upon the initiative of the Federal reserve bank, from this line of indebtedness, which depends upon the initiative of the member banks."

"The CHAIRMAN. This line here, marked 'Securities,' shows the investments held by the 12 Federal reserve banks?"

"Doctor COMMONS. Yes."

"The CHAIRMAN. And this line above, 'Rediscounts,' shows rediscounts of the member banks with the Federal reserve banks?"

LINE ON CHART EXPLAINED BY WITNESS

"Doctor COMMONS. Both of them show the earning assets of the Federal reserve banks, their earnings, the member banks paying them the rediscount rate on that, the Government paying them the interest on it. The two make up the total of their earning assets."

"The CHAIRMAN. Yes."

"Doctor COMMONS. Well, now, let us see what happens here. I have a light line here which is the total of the member bank reserves. Not the assets now; I am turning now to what is the effect on the member banks. I have a pencil line which does not show on any of these reproductions, but I will give you the figures."

"Owing to these operations of the member banks, the total member bank reserves at the Federal reserve banks increased \$200,000,000 during this period from 1922, the beginning of 1922, to the end of 1922. The member bank reserves at the Federal reserve bank, upon which they can lend to the public if they wish, increased \$200,000,000. About this time the demand deposits of the member banks, which represent their loans to the public, increased from a little over \$13,000,000,000 to a point up here, that I have figured out; they have increased \$1,800,000,000. In other words, by augmenting the member banks' reserves \$200,000,000 the volume of money in the country was increased \$1,800,000,000, eight or nine times as much. I have got that figured out. It is not always the same, but it is about that."

"Now, let me call your attention to an important matter which is overlooked. In the construction of this demand-deposits line I have eliminated time deposits. Notice that I have eliminated time deposits. I have done that because time deposits, which have increased enormously, but time deposits I look upon not as money. That goes into investments, goes into stock, goes into investments—time deposits. Demand deposits are the only money which we have. That is the curve which really determines our money supply, so that it is very important, as I figure, to have your curve show the demand deposits."

(To be continued in the issue of February 8)

[From the United States Daily, Tuesday, February 8, 1927]

FEDERAL RESERVE SYSTEM DECLARED TO AFFECT GENERAL PRICE LEVELS—DR. JOHN R. COMMONS, BEFORE HOUSE COMMITTEE, DISCUSSES EFFECT ON MARKETS OF PRESENT METHOD OF HANDLING GOLD

The stenographic transcript of the testimony given on February 4 by Dr. John R. Commons, of the University of Wisconsin, before the House Committee on Banking and Currency, at a hearing on the Strong bill (House bill No. 7895), to amend the Federal reserve act, is continued below. Publication of the transcript was begun in the issue of February 5. In the testimony already published Doctor Commons said the Federal Reserve Board, through control of credits, is able to exercise control over wholesale prices of commodities. He also said fluctuations in prices in recent years were traceable to inflation and deflation caused by trading in Government securities in the open market by the Federal reserve banks. He explained this influence affects average prices only, but not prices of specific commodities. The chart used by Doctor Commons to illustrate his contention was reproduced in the issue of February 7. The transcript continues:

"Doctor COMMONS. Now, I did have another curve in there, which I am not bothering you with now. I did have the velocity curve there of these demand deposits, because while there are from 13,000,000,000 to 18,000,000,000 outstanding those are created every few days and destroyed every few days.

"The CHAIRMAN. You are speaking now of the period from 1922 to the end of 1926?

"Doctor COMMONS. Yes.

"The CHAIRMAN. From 13,000,000,000 to the 19,000,000,000?

"Doctor COMMONS. Yes; the velocity. That is not a constant quantity of money outstanding; that is a new quantity of notes and demands creating a new quantity of demand deposits; and the average seems to run this way: In the course of 52 weeks that will turn over on the average every 10 or 12 days. So that the total amount of money which is used and created by the banks during the year would be—suppose you take 17,000,000,000 and multiply it by 26. That would be something like 450,000,000,000 of money, newly created and newly destroyed, canceled each week. Now, that is what we call 'velocity.'

"Now, I wish I had the velocity in here (the chart) to get the full effect of this, but I haven't figured that out, and I don't know how that would come up. But there is a changing velocity. Usually in a time of rising prices the velocity increases; there is more money created and destroyed more rapidly because the prices rise and the volume of production rises and velocity increases. So, if I had the velocity curve there I might possibly have this running up more than that point which is shown there. That is another important point that counts.

"Now, let us see the next effect. I have shown that the purchase of these securities causes the banks to get out of debt. Now, when they get out of debt, what do they do? They then are more free to lend money. Of course, their loans to the public would create these demand liabilities against themselves; but notice the effect of the commercial rate to business men. During that period while they were buying securities of \$440,000,000 the rate of interest on commercial paper—I am taking it at the New York market—declined from a little over 5 per cent down to a little over 4 per cent. In other words, the rate to the general public declined 1 per cent, or 1 cent, which is 20 per cent decline in the interest rate, from 5 to 4 per cent. That is the 20 per cent decline in the interest rate. They have got more money to lend; they have got more reserves; and so they are lending at lower rates of interest.

SAYS REDISCOUNT RATE FOLLOWS MARKET

"Now, notice the next point—and this is quite important with reference to many of the arguments which I hear which go to indicate that the reserve system has no power over the money market. It is said that the reserve system can not by the use of its Federal reserve, by changing its discount rate, can not precede the market; it must follow the market; that it is these demands which create the rate of interest and the discount rate. Now, notice what happens. It is true—here is the rediscount rates—it is quite true that the Federal reserve system follows the market rate, the commercial rate. Notice that in all cases the Federal reserve rediscount rate has followed the market.

"The CHAIRMAN. You are speaking now of the commercial-paper rate?

"Doctor COMMONS. Yes. The explanation was brought out very fairly by Governor Strong in his testimony. He said this: 'We first prepare the market by open-market operations; we bring down the market; we prepare the market, and then we follow the market. We follow the market by keeping under the market rate. We prepare it by our open-market operations.'

"Now, notice the illusion which right here is created in the public mind by those who contend that the Federal reserve system has no positive influence. They say it can only follow the market. Well, that is true; it follows the market. But it has previously prepared the market and then followed it. It has shown its positive effect by this purchase of securities. It has increased the volume of money, it has

reduced the market—the commercial rate to the business man—and then it has followed it.

"Mr. LUCE. But I think it follows it in the purchase of securities.

"Doctor COMMONS. I will give you my evidence of that. Now, I will take up the next point. I will show you what happened in May, 1922.

"The CHAIRMAN. I understood you to clearly state that the Federal reserve system uses the open-market transactions to prepare the market.

"Doctor COMMONS. Yes.

"The CHAIRMAN. And afterwards they follow it?

"Doctor COMMONS. With the rediscount rate, keeping the rediscount rate below the market. You will find that well brought out in Governor Strong's testimony. I am quite ready to assume that you are familiar with that; but I shall simply draw a conclusion from it which Governor Strong did not draw, namely, that the Federal reserve system has the power to control the money rate. He gave the data and the figures and showed how it was done and did it in a very masterly way.

FREE VERSUS MANAGED GOLD SYSTEM

"The CHAIRMAN. Is it fair to assume that the open-market transactions are the most potent of the influences that the Federal reserve system is using to raise the rates?

"Doctor COMMONS. They are, as long as we are on what I call a managed gold system instead of a free gold system. If we should get back to the 40 per cent limit, understand, as we were up here of the gold reserve.

"The CHAIRMAN. As we were in 1919?

"Doctor COMMONS. Then that wouldn't be patent, but as long as we have an 80 per cent gold reserve there is no danger, no immediate apprehension of running against the legal limit of 40 per cent. Then they have complete control.

"I want to distinguish between what I call a free gold system and a managed gold system. A free gold system—I might as well bring that in now—I would call a free gold system where we have completely free movement of gold to all parts of the world, a system in which the lending banks could lend up to their legal limit of gold reserves. Previous to the Federal reserve system we had the free gold system. All of the banks kept their gold in their own reserves, separate reserves. Under the Federal reserve system all of their gold was pooled, and consequently no bank can have as its reserve any amount of gold; the gold is not in reserve. It has a credit at the Federal reserve bank. There are no gold reserves any more.

"The CHAIRMAN. You are speaking of the reserves of the member banks?

"Doctor COMMONS. Of the member banks. The gold that is in the vaults of the member banks does not count in its reserve.

"The CHAIRMAN. That was brought about by the so-called war amendment during 1916 and 1917?

"Doctor COMMONS. Yes. Now, if that gold were as it was before the Federal reserve system started in the various banks, and each bank would then lend up to the limit of its gold reserves, we would have a free gold system. We have created a managed gold system, because we have impounded the gold in the Federal reserve banks, and the member banks can not get it out since these rules were adopted. Furthermore, the reserve system has made agreements with nine countries—

"The CHAIRMAN. Doctor, before you leave here: You said, 'since these rules were adopted.' What rules do you mean?

"Doctor COMMONS. I am going to explain what those rules were. I anticipated my story because of your question. It might be better if I had gone along.

"The CHAIRMAN. All right, sir; I won't bother you any more.

"Doctor COMMONS. I will just go ahead the way I started. I got into this story myself in February, 1923. I happened to attend a luncheon in New York—about 20 forecasters of business, the leading forecasters of it—Colonel Ayres, of the Cleveland Trust Co.; Carl Snyder; representatives of the great corporations and great banks—about 20 of them—and they included 75 per cent of all who are now recognized as the best expert forecasters of business in the country. There were some who represented branch houses in London, so that they had knowledge of the whole world's situation before them.

FORECAST MADE BY SCORE OF EXPERTS

"Some one proposed, going around the table, that each one of those persons present make a guess as to how high the wholesale price level would reach. This, you remember, was right at this point right here, February, 1923, beginning. Now, they are going to guess at that time how high that price level is going to go; but they are also to guess the date when it will reach that high level. Now, I notice that the forecasting that is going on nowadays usually the forecaster says: 'We can not be sure of our forecast, because we do not know what the Federal reserve system is going to do.' That is always a caution now—'We don't know what the Federal reserve system is going to do.' So they caution that in their forecast. They now recognize its power.

"At that time none of those 25 men knew, had any idea, that the Federal reserve system was going to have any influence in the matter.

This is what they guessed: The average of their guesses was 172, which would be up here, as against what it actually was. They guessed at 172. The average of the dates when it would occur was between December, 1923, and March, 1924, which would bring it about February, 1924. So that was the average of their guesses. My guess was away off. I guessed 180, away up here. Two or three others guessed up there.

"On what basis were we making these guesses? We were making our guesses on the basis of our knowledge of what happened right here. We had not seen that in the beginning of 1922 prices had moved up at the rate of 3 per cent a month. There was an inflation of prices more rapid than the inflation in 1919. At no time in 1919 or at any other time had the prices been moving up at the rate of 3 per cent a month. They had no idea, none of them, what was happening down here about these reserve banks buying.

"Notice that they guessed a straight line up to 172; those men guessed a straight line. There was where prices were going to be. They considered that we were in for a big inflation, and they were scared to death. When I present this matter to these same fellows again I remind them that they were in that game at that time—that is where they were guessing—and so they are now very cautious, I notice. Whereas now when they are guessing they say, 'We don't know what the Federal reserve system is going to do.' Then they didn't know what was going on."

(To be continued in the issue of February 9.)

[From the United States Daily, Wednesday, February 9, 1927]

PUBLICITY DECLARED PART OF PLAN TO PREVENT ANY FURTHER INFLATION OF THE CURRENCY—CAUSE IS OUTLINED BY DOCTOR COMMONS—SAYS SECRETARY HOOVER HAD PART IN PLAN OF FEDERAL RESERVE SYSTEM—BUYING OF SECURITIES MADE BY COMMITTEE—WITNESS EXPLAINS PROCEDURE AT HEARING OF HOUSE COMMITTEE ON STRONG BILL

The stenographic transcript of the testimony given on February 4 by Dr. John R. Commons, of the University of Wisconsin, before the House Committee on Banking and Currency, at a hearing on the Strong bill (House bill No. 7595), to amend the Federal reserve act, is continued below. Publication of the transcript was begun in the issue of February 5. In the testimony already published Doctor Commons said the Federal Reserve Board, through control of credits, is able to exercise control over wholesale prices of commodities. He also said fluctuations in prices in recent years were traceable to inflation and deflation caused by trading in Government securities in the open market by the Federal reserve banks. The chart used by Doctor Commons to illustrate his contention was reproduced in the issue of February 7. The transcript continues:

"This is what happened: Immediately after that meeting I became greatly alarmed about the inflation of prices, the whole bunch being alarmed. I went over to Washington and had a talk with a member of the Federal Reserve Board to see what they thought about it, about this inflation of prices that was going on. One of the principal members said to me, 'We know what we ought to do, but we don't know when to do it nor how far to do it,' which shows that they were learning; they had learned.

"Now, this is what they did: At that very time they were organizing what they call now the open-market committee. Let us take the story up at this point again of the securities. You remember I said at the beginning of 1922 these banks were buying—the Federal reserve banks were buying—securities without any idea of what its effect was going to be on credit, just simply to earn a profit, just the same as any private business would do to earn a profit on their balances. In May, 1922, the Secretary of the Treasury began to complain that they were disturbing the Government securities market and asked them to introduce some orderly purchasing in these Treasury certificates; and at the instance of the Secretary of the Treasury they proposed to stabilize the prices of Government securities.

"They further organized an informal committee—Governor Strong gave that in his testimony, and I am simply repeating what he said—they organized an informal committee by which all of these purchases and sales had to be done through a formal committee as a system. This orderly market idea had come into vogue in many departments. It was in the War Finance Corporation.

ORDERLY PURCHASE OF TREASURY CERTIFICATES

"The orderly market was to prevent fluctuations of the United States securities in the securities market. At that time they had no idea of the influence of their purchases on anything except the securities market. But notice. In this orderly market process they began to sell securities. When it came down to the beginning of 1925 they realized then, they had learned the lesson then, the next lesson, that this purchasing and selling of securities was controlling this thing up here, was controlling the volume of money, was controlling the price level, was controlling the interest rate.

"So they reorganized that committee and adopted three months later, in April, 1923, this working rule, this resolution, to the effect—they had been operating on it in February, but the Federal Reserve

Board did not actually adopt the rule until April, 1923—that hereafter in the purchasing and selling of Government securities those sales and purchases should be made with regard to their effect on the general credit situation. Notice that they didn't say, 'with regard to the effect on the price level,' but they said, 'with regard to the effect on the general credit situation.' I will analyze that general credit situation later. So the only working rule that they have now is this: That the open-market purchases shall be regulated with regard to their effect on the prices of United States Treasury certificates and upon the general credit situation.

"Now, then, let us see what they did. I visited the secretary of the Federal Reserve Board in February, 1923. That was the date when these forecasters were making all these guesses. Notice that instead of prices going up to 172, they stopped within a month after these forecasters were making their guesses and went down.

WHOLESALE PRICES IN 1923 AFFECTED

"The CHAIRMAN. You are referring to the wholesale prices?"

"Doctor COMMONS. I am referring to the wholesale prices in 1923. What happened is this: First, this gentleman on the Federal Reserve Board knew what we ought to do. What they knew was that they ought to be selling securities, and they were selling. They kept on selling them from May, 1922, until July, 1923, when they sold 400,000,000 of securities. Multiply that by 8. That would mean that it would reduce the member banks' lending ability and stop the lending ability of the member banks.

"The CHAIRMAN. To the extent of 3,200,000,000?"

"Doctor COMMONS. Well, if it worked out accurately that is what it would be; but I haven't the velocity figures in here; I haven't got the volume of production in here; but I am giving this. So, in the end of February or the beginning of March notice what happened then. By that they were starting the rise of the commercial rate. The commercial rate went up in New York from 4 per cent to 5. By May, April or May, of 1923, these security sales had had that effect, had sent up the market rate of interest.

"Then here in February they raised the rediscount rate in their banks from 4 per cent to 4½. Now, it is interesting to notice the reasons they gave for their raising of the rediscount rate. The Federal reserve system—they raised it first in Boston, then in San Francisco, and then in New York; and that equalized the rediscount rate at all the 12 banks. They said the only reason for their raising the rate was to equalize the rates of the country. Well, notice that you can equalize rates by reducing the high rates down to the level of the low rates just as much as you can equalize by raising the low rates up to the level of the high rates. So when you are talking about publicity in your bill please go into detail as to what the publicity shall be.

"Mr. STEAGALL. Is that entirely accurate, to say that they can equalize by lowering the high rate to the low level?"

"Doctor COMMONS. Suppose there should be nine banks charging 4½ and three banks charging 4 per cent. How are you going to equalize? I can say we will equalize the high banks, which are in the outlying districts. We will equalize by reducing them down to the Boston, New York, and San Francisco rate.

"Mr. STEAGALL. I can understand how that would be true; three of them as against nine. But I can't quite see—go ahead; I don't want to interrupt you.

"Doctor COMMONS. Look at the psychological effect. I am coming now to the effect of publicity. If we equalize upward, that is an intimation that if that is not enough we are going to go up a little more. If we equalize downward it is an intimation that the general tendency is to go downward. So we can effect a tremendous influence on the psychology of the public by simply equalizing rates.

"And yet I think they did it wisely. I wouldn't force them to say too much, because if they had said too much—that we are doing this in order to head off business prosperity that is coming—they would have had it right and left. In order to avoid public criticism they said, 'We will just equalize it.'

"If they had said, 'We are equalizing it because prices are rising too fast and we want to bring down the price level,' they would have had the whole public on them. They were wise in saying only as much as they did. That is all they gave out.

"Now, take the next step. I am speaking now of how they controlled—

"Mr. STEAGALL. Let me ask you a question before you do that?"

BANKING STRENGTH OF THREE POINTS

"Doctor COMMONS. Yes.

"Mr. STEAGALL. What per cent of the resources of the entire system—I mean of the 12 banks—is under the control of the 3 banks now, New York, Boston, and San Francisco?"

"Doctor COMMONS. They have a reserve of, say, 80 per cent, gold reserve. I have averaged it all together. Under this banking committee, if one bank is short one bank lends to another.

"Mr. STEAGALL. I am familiar with that; but you named three big banks—

"Mr. STEVENSON. This brings up this question that I intended to ask: You are speaking of equalizing from three banks up to nine. As

a matter of fact, however, the volume of discounts by those three banks is practically as great or even greater than the volume of the other nine?

"Doctor COMMONS. Yes. You see the strength of my contention?"

"Mr. STRAGALA. Yes."

"Doctor COMMONS. They have raised the great bulk of the banking business up, and they called it simply equalizing those three banks with nine banks."

"Now, on the other hand, if we are going to equalize the volume of business, then we should lower the nine banks down to the level of the three banks. I only mention this because there is a very important psychological influence on the public that has taken account of, and I think that is one of the reasons why I favor stabilization of the price level."

"If the banks know that they are authorized to keep the price level stable, they will be absolutely frank with the public in giving out their statements and they will not cover up anything, which they must do now, because of its influence on the public."

METHODS TO REDUCE DEMANDS FOR CREDIT

"Now, the next point: That did have a very sobering effect on the business public, a very tremendous effect on the business public, that raising of the rediscount rate. But that was not all. That was accomplished by a certain amount of publicity. I have had looked up all of the public statements about that time as to inflation. My point now is how are they going to reduce the demand for credit?"

"They are going to do it by two things, both of which affect publicity. I have got another thing which I will mention later. There were three methods of reducing the demand which they brought into play—raising the rediscount rate, but also by giving out public statements. Now, Mr. Strong, in his testimony here, quite rightly said that he thought that was a very dangerous thing for them to do, to announce their policy, to give publicity."

"The CHAIRMAN. You are referring to Governor Strong?"

"Doctor COMMONS. Governor Strong. And the reason why he is in that situation is because he has no legislative rule to guide by. If he had a legislative rule to guide by, he would be perfectly frank to give out public statements; but under the present situation he can not give out statements as to what his policy is. But there are other people who can give out statements. Secretary Hoover was probably most influential in giving out statements that we were going too fast, that business must hold up."

"I will place in the record here statements which came from the New York Times, Mr. Gary, Mr. Babson, Mr. Hoover, and Vice President Coolidge. This will go into the record as an exhibit, I suggest."

"The CHAIRMAN. Without objection, they will be placed in the record at this point."

"But, Doctor, I want to ask a question. These are statements that were given out apparently for the purpose of influencing the public mind on the business situation?"

"Doctor COMMONS. Yes."

"The CHAIRMAN. Do I understand that that was directed by the Federal Reserve Board, or was it spontaneous?"

"Doctor COMMONS. I have asked people in the Federal reserve system about that publicity feature, the publicity that was carried on at that time. I have submitted to them, one of them, an influential man, my paper on this subject. He answered me that Secretary Hoover was in the game, and that the publicity was a part of the general system of preventing further inflation."

"Well, now, we have to recognize that the Federal reserve system is not itself operating except as a part of the general business psychology of the situation. Having no legislative rule, they do the best they can with the people that they are concerned with. The change of the publicity, however, did not come until after the Federal reserve system had taken its course. Hoover's warning did not come until April, 1923. Previous to that time, as you will find by the records, everybody was talking prosperity, inflation. Gary was talking it; Babson was talking it—everybody. Here they were talking prosperity. After that discount rate was raised, right here, they began to say 'Go slow.'"

PUBLICITY SOUGHT TO CHECK INFLATION

"The CHAIRMAN. And 'Look out for a period of secondary inflation'?"

"Doctor COMMONS. My notion is that the influence came from these members of the Federal reserve system who were studying the thing and had learned their lesson during 1922 and 1923."

"Mr. STEVENSON. Not the Federal reserve system? Do you mean the Federal Reserve Board?"

"Doctor COMMONS. No; they didn't say anything. I mean in this case the Federal reserve banks and the Federal Reserve Board."

"Mr. STEVENSON. You said 'the members of the Federal reserve system.'"

"Doctor COMMONS. Well, I will take up the banks now, the member banks. This is the third method by which they control the demand."

"The CHAIRMAN. Doctor, before you go into that, which is pertinent to this matter of publicity, let me ask this question: The operations of the open-market purchasing—who directs those operations, the committee or the Federal Reserve Board?"

"Doctor COMMONS. The committee, under the approval of the Federal Reserve Board."

"The CHAIRMAN. They don't move without the approval of the board?"

"Doctor COMMONS. They have the approval of the Federal Reserve Board at all times. I don't know how much in detail that goes, but here is this committee and three or four governors who are on the open-market committee. They are the committee created and given power by the Federal Reserve Board; and Governor Strong's testimony here indicated quite plainly that they do not take an action on which they have not previously gotten the approval of the Federal Reserve Board. So that it is not an arbitrary thing of some bankers; the Federal Reserve Board has a definite voice in it."

"The CHAIRMAN. It is now a quarter past 12, and I suppose the Members would like to get in on the floor. Is it agreeable to the doctor to come back this afternoon?"

"Doctor COMMONS. Yes, sir."

"The CHAIRMAN. The committee will then adjourn until 2.30 o'clock this afternoon."

"(Thereupon, at 12.15 o'clock p. m., the committee adjourned until 2.30 o'clock p. m. the same day, when the committee reconvened, LOUIS T. McFADDEN, chairman, presiding.)"

FIVE METHODS ALLEGED OF CONTROL

"Doctor COMMONS. Perhaps it will economize time if I indicate to you the five subjects that I am developing in order to show that the Federal reserve system controls not only the supply of credit and the price of credit but also controls the demand for credit."

"The first is publicity. That is one of the ways in which it controls the demand for credit."

"The second is the rediscount rate; that is the control of the price of credit, raising or lowering the price of credit."

"The third is its open-market operations, by which it controls the supply of credit."

"Then, fourth, it is a custom—I can only call it a custom, or working rule of the bank—of extending their loans up to the legal limit, but keeping out of debt to the reserve banks. It can only be explained as a custom because they lose a lot of money by doing it."

"Fifth is the private transactions between the 10,000 member banks and their business customers. That fifth is the summing up of the whole argument."

PROMPT EFFECT ON MEMBER BANKS

"I will take up now what I call the custom and the working rules. This goes to the question of why the open-market operations and the rediscount prices of the Federal reserve system have such an immediate and prompt effect upon all of the member banks, 9,500 of them. They all act at the same time in the same direction, over the entire United States, as one man."

"Now, I distinguish between a monopoly and this. It is not a monopoly. We do not have a banking monopoly. We have a system by which a concerted movement of bankers is effected through their own rules and regulations. It is more like a trade-union. I call it trade-union of bankers, for they operate exactly like a labor organization operates in fixing the prices, and then all of them acting alike throughout the country."

"Now, let me explain how that comes about. In the first place, they have a limited supply of gold, which is the property of all the member banks, which has been impounded into a single fund controlled by their committees. That is a limited fund and any bank which takes more than its proper share of that limited fund is infringing upon the rights and claims of member banks, so there is a business ethics which grows up which says that no member bank is acting fairly toward its other member banks if it borrows more than its proper share of this common fund which is limited in supply, and then lends that out to the public at a profit."

"In other words, the principles underlying it here is a limited fund, and there is a limited number of customers. The bank which pulls customers away from other banks by borrowing more than it is entitled to is taking more than its fair share of that limited fund."

"That was cared for in section 4 of the act. Section 4 of the act stipulates that a reserve bank may scrutinize and restrain a member bank which goes beyond its fair share in making use of this common fund, and it is in these words:

"'Section 4 limits the accommodations which the reserve banks may give to the member banks, with due regard for the claims and demands of other member banks.'"

CHECK PROVIDED ON UNDUE BORROWING

"That is in the statute. Under that provision a reserve bank which finds that a member bank is borrowing continuously and then relending at a profit, it may put the screws on that member bank, either by a closer examination of its eligible paper or by notifying it that it is going too far."

"Members of Federal reserve banks have told me of applying the rules to member banks who have gone beyond their fair share, but it is like all of these working rules of a union or association or a group of

people, it takes account of the exigencies of the individual bank, and so the banks in the agricultural districts have been compelled to be chronic borrowers, and they have been allowed to be continuously in debt to the Federal reserve bank, although they were taking more than their share of the business which their customers would naturally call for.

"That is the first important working rule which makes these banks keep out of debt.

"So, if you will follow this figure here, this curve is the curve of rediscounts [indicating on Chart No. 1]."

(To be continued in the issue of February 10.)

[From the United States Daily, Thursday, February 10, 1927]

DOCTOR COMMONS SAYS STRONG BANKS DO NOT BORROW OF FEDERAL RESERVE SYSTEM JUST TO RELEND—ETHICS ARE OBSERVED BY BIG INSTITUTIONS—IN THEORY ENORMOUS GAINS COULD BE OBTAINED BY OPERATING AS FORMERLY—ALL HOLD CLOSE TO RESERVE MINIMUM—PRESENT SYSTEM ALLOWS EXTENSION OF LOANS UP TO LEGAL LIMIT OF DEPOSITS

The stenographic transcript of the testimony given on February 4 by Dr. John R. Commons, of the University of Wisconsin, before the House Committee on Banking and Currency, at a hearing on the Strong bill (House bill No. 7595), to amend the Federal reserve act, is continued below. Publication of the transcript was begun in the issue of February 5. Chart No. 1, used by Doctor Commons to illustrate his arguments, was reproduced in the issue of February 7. The transcript continues:

"Doctor Commons. This is indebtedness of member banks to reserve banks [indicating on chart]. As soon as the Federal reserve system starts selling securities it puts them in debt; they have to give a rediscount in order to build up their member reserves. They borrow in order to keep up their legal reserves. It puts them in debt.

"Then as soon as the Federal reserve system begins to sell securities it furnishes them credits by which they can pay off the debts to the Federal reserve system.

"There are two ways of paying off debts: Imports of gold—and if they are in debt they take the gold and pay off their debts and reduce their indebtedness—or, if the Federal reserve system buys securities, as I explained this morning, thus creating additional credits of the bank against the reserve bank, then they use that to cancel those rediscounts.

"The point is that under this working rule banks are not allowed to be continuously in debt as there were here [pointing to chart]. Notice at this point [indicating] in 1920 and 1921, here is the curve of member-bank reserves. Here is the borrowings of those banks from the Federal reserve bank. So that during this period the banks were borrowing at least twice as much as their reserves. Their whole reserves consisted in borrowings from the Federal reserve bank.

"Now, it is an interesting fact that when the Federal reserve system was started one of the arguments offered to State banks to induce them to come into the Federal reserve system—I know that that has happened in Ohio; I do not know that it happened in other States, but I assume that it did—an inducement was offered to the State banks to come into the Federal reserve banking system of Cleveland on the ground that here was a chance to make money because they could rediscount with the bank at Cleveland and then reloan at a profit.

THEORETICALLY ENORMOUS PROFITS

"Now, you can see what an enormous profit, theoretically, can be made. Suppose a bank rediscounts a million dollars with the Federal reserve system, goes into debt at a discount rate of 4 per cent. They are loaning that money at 6 per cent. They can rediscount, though they have no reserves of their own; they can take that original paper and rediscount it—which means borrow from the Federal reserve system—4 per cent, and lend it to their customers at 6 per cent.

"But that is not all. For every million dollars of reserve credit that they have created at a reserve bank they can lend on the average \$8,000,000 to their customers, because they do not simply lend this amount that they have come into debt, but they multiply it by eight, and so that apparently the banks stood in a position, by joining the Federal reserve system, by going in debt to the Federal reserve bank, to create a reserve there by indebtedness which would enable them to lend eight times that much. At 6 per cent the profits are enormous. Borrowing a million dollars at 4 per cent and lending \$8,000,000 on the basis of that at 6 per cent would evidently give them a tremendous profit. That was what was done in 1919 and 1920.

"Then this rule provided in the act of Congress says that if a bank is continuously in debt—that is, borrowing and relending at a profit in conditions other than emergencies—then the Federal reserve bank can restrain it.

STRONG BANKS AVOID SUCH LOANS

"I call them the marginal banks, the weak banks; those are the banks that have to be supervised by the Federal reserve bank to keep them from borrowing continuously and relending at a profit. I do not know of all the practices. I happen to know of one bank in Madison

that is continuously in debt to the extent of about \$350,000, which it relends at 7 per cent, and it evidently makes a handsome profit on that borrowing from the Federal reserve bank at Chicago. The other banks in our city will not borrow in order to relend at a profit.

"And now I come to this interesting thing: I have talked with strong banks of stability, and asked them, 'Do you borrow at the reserve bank in order to relend at a profit?' Ask that question of any banker. You will find him saying in reply, 'No; we do not borrow to relend at a profit.'

"There has grown up that ethics or custom or tradition of a bank, of the strong banks, that they will not have in their statements any showing that they are in debt to the Federal reserve system. And if they, during emergencies or in between bank calls, do get into debt to the Federal reserve system, they get out of debt before the comptroller's call requires them to make a statement.

"You will not find the strong bank showing a statement of indebtedness to the Federal reserve system.

"The only explanation I can make of that is that they are not acting according to the ordinary principles of self-interest. The principle of self-interest would be to go into debt and borrow at the reserve bank and then relend at a profit. They will not do it. I know banks where there have been debates in the board of directors, one element taking the position that they ought to borrow and relend at a profit, and the other saying, 'We can not afford to do it; our reputation will not stand it.' They say that the standing they have in the community consists in their banking upon their own abilities and not upon loans which they make from the Federal reserve system.

"If you get the strength, then, of those two rules, which are not according to the ordinary economic principles of self-interest, but are based upon keeping up a good reputation in the case of the stronger banks, and the case of pressure in the case of the marginal or weaker banks, you can see how these market prices will have immediate effect upon the banks.

"The other part of it is this: That since the system went into operation and banks, all of them, strong and weak as well, keep close to their legal reserve minimum or maximum. Prior to the reserve system every bank had its own gold reserve. It had to protect itself individually against emergencies, against crop seasons, so if its legal reserve was 15 per cent according to law it would never allow the ratio of its demand liabilities to its gold reserve to get down to 15 per cent; it would keep a margin of 20 per cent, so as to be safe in emergencies.

"When the Federal reserve system came in it was no longer necessary to keep a reserve in their own vaults, because if the emergency came all you needed to do was to go to the reserve bank and rediscount or borrow, and thus restore your reserve. So that all the banks have acquired the custom of extending their loans clear up to the legal limit of the resulting deposits—demand liabilities and the legal ratio.

"So there are two customs here operating together. First, extend our loans or accommodations to the business public up to the limit of our legal reserve. Second, but never extend that legal reserve by going into debt to the reserve system in order to augment the legal reserve.

"That explains why it is that as soon as they get into debt to the reserve system they begin to raise the commercial rates. They are not going to make a profit on it; they are going to reduce loans, and not increase their demand liabilities.

"Mr. BEEDY. You referred to the Federal reserve banks as financing the discounts.

"Doctor Commons. The Federal reserve bank has control—this line here [indicating on chart 1]—of the securities. This figure here, the commercial paper rate, the member banks do that. This curve here, of the volume of holdings of securities, the Federal reserve banks do that. As a consequence the member banks are either compelled to borrow to replenish their legal reserves, or they can still maintain their legal reserves by reducing their indebtedness to the reserve banks.

"Mr. BEEDY. You started to tell us that these strong banks do not undertake to make a profit, so that when they borrow they raise the rate on loans.

"Doctor Commons. They raised the rates here to the customers so as to reduce their liabilities here [indicating on chart]. The reserve here is the reserve against the demand deposits.

DEPOSITS RATIO TO LEGAL RESERVES

"The CHAIRMAN. The demand deposits are eight times as much as the legal reserve?

"Doctor Commons. Eight times as much as the legal reserve.

"That is the legal average that works out for all the banking systems of this country, owing to the amendments that Congress has made. The actual ratio is 1 to 10. If you average the banks of the entire country, you will find the total demand liabilities of all the banks is ten times the legal reserve. That is the law. But it does not work out quite that way. It works out 8 or 9 to 1 instead of 10 to 1.

"The CHAIRMAN. I would like you to explain the change that was brought about by the change in the reserve requirements in 1916 and 1917. You will recall that the original Federal reserve bank lowered reserve requirements of banks, but in 1916 or 1917 the pressure of the

war situation was such that we took off all legal reserve requirements when we called in the gold from the member banks, and we changed the basis of reserves, and before you get through I would like you to elucidate that and its effect.

"Doctor COMMONS. You can find it in Governor Strong's testimony. Prior to that act of 1917 the average legal reserve required by law of member banks compared to their demand deposits was about 20 to 1. Congress practically reduced that one-half.

"Mr. STEVENSON. You stated that the strong banks, when they found themselves under the necessity to borrow, immediately began to cure that situation by raising their discount rates.

"Doctor COMMONS. They did it in various ways. If they found that they were in debt to the reserve system, they might call a loan, or they might call a deposit which they had in a weaker bank and transfer that to the Federal reserve bank and thereby get credit and get themselves out of debt. Now, that forced that weaker bank to give a rediscount in order to recuperate its impaired reserve.

"Mr. STEVENSON. The process of checking that tendency by raising the discount rate on commercial paper by the member banks, of course, would be limited by the legal rate of interest which they are allowed to charge. The States all regulate that, I think. There would be a limitation, though, of the power on the bank to correct it by raising the discount, and therefore they would correct it by calling loans.

"Doctor COMMONS. Yes; and, of course, they reduce the other loans to the public.

"Mr. BEEDY. That is its effect. If they have the legal rate of interest already, they can shut down on their loans.

"Doctor COMMONS. I submit an exhibit here which gives the member bank reserves, the ratio of member bank reserves to total demand deposits, and gives the way in which the rate of interest, commercial paper, corresponds. It represents the movement of reserves that are free from debt [indicating]. This line below here is reserves to which they are indebted.

"As the member banks get free of debt, this line goes up [indicating]. This is the commercial rate which they charge. As they get free from debt, the commercial rate goes down. As they go into debt, the commercial rate goes up. It is almost automatic and operates without any lag whatever.

"One line indicates member banks' reserves, the base line being marked zero; the line above that in terms of billion dollars, showing that from 1919 to 1926 member banks' reserves on the whole increasing from about \$1,600,000,000 to about \$2,000,000,000. That is the total member banks' reserves in the form of credits at the Federal reserve banks.

"How much can they loan to the general public as compared with that? The line in the lower section, entitled 'Member banks' reserve ratio,' ranges between a ratio of 1 to 8 and 1 to 9. They do actually lend eight times as much as their reserves. When that line goes down, as in 1919, the figure on the margin shows that they can loan nine times their member reserves.

"Now, take the line marked 'Reserve free of debt,' the line starts at zero and falls, and then rises in 1922, falls in 1923, rises rapidly in 1924, and falls in 1926. The space below that line, between that line and the base line, marked 'Zero,' means reserves free of debt to the reserve system. The space between that line and the line marked 'Member banks' reserves' means reserves burdened by debt to the Federal reserve system.

UPSET OF INFLATION PERIOD

"If you will follow that line and come back in the years 1920 and 1924, you will find that the debt to the reserve system is much greater than the reserves, showing that in those years their reserves were made up altogether of indebtedness to the reserve system. They were borrowing from the reserve system and lending again to the public.

"In 1922 they had paid off their debts very largely, so that their borrowings were small, and they were lending out their own assets.

"Mr. STRONG. That borrowing from the Federal reserve system in 1919 and 1920 upset the inflation period?

"Doctor COMMONS. Oh, that is what it did.

"Now, then, this other line at the top is the rate of interest charged by these banks to the commercial public. You will notice that when they are in debt to the reserve system the commercial rate to the general public is very high, reaching 8 per cent. Then when in 1922 they had gotten rid of their indebtedness to the reserve bank, their rates of interest to the public came down.

"And again, when in 1922 and 1923, by the action of the Federal reserve system selling securities, they got in debt again, then the interest rate went up. In 1924, when the reserve system bought securities, and thus they got free of debt, the interest rate came down.

"That is a restatement of what happened here on this chart [indicating], and you will notice the inverse correlation of those two curves. They are identical, showing the immediate effect which the reserve system's operations on the open market have upon the interest rate.

"Another chart shows the number of banks accommodated each year by the reserve system. By accommodation I mean the number of banks which appealed to the reserve system for loans, and it shows

that of the 9,000 or 10,000 banks in the years 1920 and 1921, the number of banks that were accommodated reached as high as 9,600, meaning that at this stage 9,000 of the member banks were borrowing during some point of the year from the Federal reserve system to maintain their reserves. At the other extreme, the lowest point was 1924, when there were only 2,500 banks borrowing from the reserve system.

"The CHAIRMAN. Now, you are referring to chart No. 1, during the period of 1920?

"Doctor COMMONS. Yes, sir. Then in chart No. 1 (reproduced in the issue of February 7), for the period of 1924, when they got out of debt, only 2,500 banks were borrowing during that year. These figures are taken from the annual reports of the Federal Reserve Board.

NO BORROWING TO SEEK PROFITS

"That is another confirmation of what I am trying to get at: That after 1922 and 1923 they learned two things; they learned to keep out of debt, either by rule of inspection and scrutiny on the part of the reserve bank or by a rule of ethics, of good standing, and good reputation of the strong banks, to keep out of debt. Instead of this habit of keeping in debt in order to relend at a profit they now have the habit of keeping out of debt beyond their proper share and except for emergencies.

"The system now gets back, not to a money-making system but to an emergency system, what it was intended to be, but they did not have that idea until 1922 or 1923.

"The CHAIRMAN. When you say 'they,' you refer to the member banks?

"Doctor COMMONS. Yes; the member banks. They lend up to the limit, because they do not have to keep reserves in their own vaults, and if an emergency comes they can go to the reserve system and rediscount. They do not extend that limit by going in debt, because they are taking more than their share of a common fund, which is limited in supply, and it does not give them a good reputation to be in debt to the Federal reserve system. Consequently, they are always right on the edge, so that the smallest operation of the Federal reserve system in buying or selling securities will immediately affect them. They are on the edge of their legal reserves all the time, and they have got nothing to play on, so it affects them immediately.

"The CHAIRMAN. In other words, it is a common practice of the member banks only to keep their legal-reserve requirements with the Federal reserve banks?

"Doctor COMMONS. That is the only legal reserve they have. They have no other reserve except what is at the Federal reserve banks, so they are subject to the Federal reserve banks' operations.

"The CHAIRMAN. They do not keep a balance beyond that with the Federal reserve banks beyond the legal requirements?

"Doctor COMMONS. No.

"The CHAIRMAN. But they keep a secondary reserve with the city correspondent banks?

"Doctor COMMONS. Yes.

"Mr. CANFIELD. You referred to the better class of banks, the safest banks, not borrowing to lend. Is not that considered dangerous banking in most cases?

"Doctor COMMONS. It was not considered dangerous until 1922. It is now not considered dangerous in all cases. I happen to know one bank that is making a practice of it on a very large scale. I do not know why they are allowed to do it. Apparently it is against this rule of Congress, and I have not made enough study of the subject to know what decides the question in each particular case of the 10,000 banks.

"Mr. CANFIELD. In other words, then, by a majority of the bankers it is considered to be dangerous banking?

"Doctor COMMONS. It certainly is. It means inflation. If they would all be doing that, there would be inflation.

COMMON ACTION TAKEN BY BANKS

"Now, I take up the final effect of all these four items upon the behavior of the 10,000 member banks. Under these rules all of them are acting in the same way, at the same time, raising the rates, lowering the rates, or increasing their reserve. The promptness with which that operates was impressed upon me by one member of the reserve board, in the fall of 1923. I had seen him in February, 1923, and in speaking about three open market operations, and in September, 1923, I asked him about the experience. He said it was to them the most surprising thing that ever happened, that when they started selling securities banks all over the country came to borrow money in every part of the country. It affected them all at once, and they themselves learned for the first time that owing to this interrelationship and clearing house system that if they sold \$400,000,000 of securities, the banks in all parts of the country would have to borrow to restore their impaired reserves. They did not know that prior to 1923. They found it out by experience, and that gave them this knowledge which they had never had before, of how prompt was the effect on the member banks of these open-market operations.

"Now, the next inference is, I have established that all the banks act in the same way at the same time in all parts of the country, and

that brings up two or three questions and two or three objections which are raised, which I put forward generally against the argument which I sustain, that the Federal reserve system can regulate the general price level.

"I have said they have controlled demand and supply of credit. Now, I am going to answer the objections of those who say that the Federal reserve system does not have power to do so.

"First, it is said that business psychology determines the demand for credit, that the banks do not determine the demand. If there is optimism in the business world, then there is a demand for credit; if there is pessimism in the business world, then there is no demand for credit.

"Another objection is—I am taking these from financial journals—that this rate of interest is such a small item in the cost of production that it has no effect on the price level. My argument shows that this rate of interest has a tremendous effect upon the price level.

"If the commercial rate falls from 5 to 4 per cent, or if the rediscount rate falls from $4\frac{1}{2}$ to 4 per cent, it is a small item in the cost of business, and if this were based on a cost argument I could not sustain any inference.

"The third objection is that the reserve system can only follow the market and must adjust its policy to what the business men are doing. That it can only follow the market rate of interest, and if the market rate rises, then it can raise its rediscount rate. That is the argument. I say it first prepares the market and then follows it.

"The CHAIRMAN. That is the Federal reserve system?

"Doctor COMMONS. Yes; the Federal reserve system. It first prepares the market by its open-market operations, causes the market rate of interest to fall, and then follows it by actual discount. The market is itself made, first, by the Federal reserve system, which having made it follows it. Governor Strong in his testimony fully explained that to you gentlemen, and I would refer you to his testimony for a complete explanation.

"The CHAIRMAN. That was an important discovery that they made in 1923, was it not?

"Doctor COMMONS. I illustrated it by those 24 expert forecasters. In February, 1923, they did not know a single thing about what this economic influence was. They predicted prices would go up to 172. The Federal reserve system stopped them right within a month after they made the prediction and reduced them to 145, 97 points below where the economic forecasters thought it would be.

"Mr. BEEDY. How did that reduce it? By purchasing in 1922 and 1923 how many million dollars' worth of securities—\$400,000,000, was it not?

"Doctor COMMONS. I will tell you the five instruments that they used: Publicity, rediscount rates, open-market operations, this custom and working rule of these private transactions of 10,000 member banks with their customers—and that is the point I am now going to take up."
(To be continued in the issue of February 11)

[From the United States Daily, Friday, February 11, 1927]

COUNTRY'S BUSINESS IS NOW BASED ON RESERVES OF CREDIT, NOT GOLD, SAYS DR. J. R. COMMONS—TESTIFIES BEFORE HOUSE COMMITTEE—HEARING ON ACT TO AMEND LAW FEDERAL RESERVE SYSTEM OF NATION'S BANKS—PROPOSES NEW FORM FOR INDEX NUMBERS—WOULD BASE THEM ON CERTAIN FACTORS, AVOIDING WAGES AND OTHER INCOME

The stenographic transcript of the testimony given on February 4 by Dr. John R. Commons, of the University of Wisconsin, before the House Committee on Banking and Currency, at a hearing on the Strong bill (H. R. No. 7595), to amend the Federal reserve act, is continued below. Publication of the transcript was begun in the issue of February 5. Charts used by Doctor Commons to illustrate his arguments were reproduced in the issues of February 7 and February 10. The transcript continues:

"The CHAIRMAN. These purchases in the open market, by the Federal reserve banks through the open-market committee, are largely made in Government short-time securities?

"Doctor COMMONS. They are.

"The CHAIRMAN. Suppose the Government should refund those short-time securities so that they would not be available for the market?

"Doctor COMMONS. The same thing could be effected by purchasing private securities of any corporation; it could be effected by taking more initiative in the acceptance market, any place where they wanted to take the initiative and go outside of member banks and purchase or sell.

"The CHAIRMAN. So long as acceptances were available they would answer the same purpose?

"Doctor COMMONS. All they have to do is to go outside the member banks and deal with any outsider, giving a check on themselves which the outsider then deposits in a member bank, and that increases the reserve of that member bank at the Federal reserve bank.

"Mr. STEAGALL. In that connection, you started to discuss the proposal for suspending loans to foreign governments.

"Doctor COMMONS. Well, if you will allow me, I will bring that up under the last question I want to discuss, and that is the question of policy. I am giving you the theories according to which my contention is opposite. In general, I may say that it goes upon a physical analogy that there is a volume of business, on the one hand, created by business men, and, on the other hand, there is a volume of money, neither of which have any particular relation to each other. That may have been the case when we were on a free-gold basis. On the one side the world had a volume of gold. On the other side there was a volume of transactions, business men buying, other business men selling. That volume of transactions created the demand for the use of this volume of gold, and so there resulted the so-called equation of exchange, by which if you would increase the supply of gold prices would fall, and if you decrease the volume of gold prices would rise.

"On the one side, if you increase the volume of gold, prices would rise, and if you reduce the volume of gold prices would fall. That is the so-called quantitative theory of money, which has created great discussion in economics since the time of Ricardo. That is a gold theory.

"Our present business is not conducted on gold. The gold is impounded and has no influence whatever. The reserves are no longer gold reserves, they are credit reserves at the Federal reserve banks. The money which is used is no longer gold, but it is those demand deposits. We have a system now by which the business man himself is creating the money. How is it done? Just take a credit transaction and analyze it.

"Suppose I am a manufacturer of steel and Mr. Strong is an agricultural machinery manufacturer. I sell to him a thousand tons of steel shapes at \$30 a ton, to be paid in 90 days. I have an understanding with a banker that I will take that promise of his 90 days and discount it and convert it into cash-demand deposits so I can use it in my business to-day. That is the way all business is done.

"Notice what is happening there. There is nothing physically in existence at all; everything is in the future. The first thing is your promise in 90 days to pay me \$30,000. The second is my confidence or my knowledge from the bank that it will discount that and give me \$30,000-demand deposits which I can use any day in the future. The first is 90 days in the future, the second is any day in the future.

"That is our system. Our system is not a system where there is any physical quantity at all; our system is a system of promises, all of which is in the future. None of those promises can be changed.

"Suppose, as in 1923, there goes out publicity that business is going to be pretty slow; there also goes out publicity that the rate of interest is going to be increased; that there also goes out publicity that the banks' reserves are being reduced and money is getting tight. Not only my banker, I being a steel producer, but your banker, you being an agricultural man, and not only your banker, but the farmers and all the people to whom you expect to sell, all are giving every one of us exactly the same advice, to go slow, don't create a demand for credit. Consequently you can vary that future commitment. You can say, 'Well, things don't look right; the bankers advise us to go slow; I can not take 1,000 tons at \$30; but I may take 500 tons at \$30 a ton.'

"Notice what has happened. The demand for credit has changed from \$30,000 to \$15,000. You have there changed the demand for credit. The demand for credit was not an independent volume of trade which was going on independently of what the banker was doing; the demand for credit was what you and I and all of your business customers were doing under the knowledge and advice of what the bankers were going to do at the same time.

"In other words, it is a collective system of bargaining between all the bankers on the one side and all the business men on the other, all acting in the same way at the same time, and with factors so variable; none of them fixed because they are all in the future, and they can be changed in any way.

"The result is we may look at it this way: That a credit transaction is a two-sided transaction. On the one side it faces the commodity market; that is, the price 90 days ahead, a short-time credit; on the other side it faces a money market, which is a bank. That is a demand credit. Instead of there being two commodities, two markets, it is the future and the present of the same market. The banker is buying the future expectations, promise of business men payable in 90 days, and he is selling a present credit, which is the present worth of that future promise.

"If we analyze that the actual thing that happens under a credit system, when we have got away from the gold altogether, we can see then a concerted movement of all the banks operating in this way has complete control over the business men's demands for credit, because they are the ones that are going to convert that demand for credit which is in the future into a present purchasing power.

CREDIT SYSTEM VERSUS GOLD BASIS

"It is not two physical volumes at all, gold on the one side and a volume of business on the other; it is the present and the future of the same thing. One 90 days in the future, and the other is in the immediate future.

"When you consider that 10,000 bankers are acting in the same way all over the United States, that the farmers are being influenced that way, everybody is being influenced that way, and that the uniformity is accomplished through these open-market operations, through these rediscount policies, and then by this private bias which the bankers are giving their customers. Once I thought the rediscount rate could do the whole thing. Then I learned from Governor Strong in 1923 that the open-market rate could do the whole thing. I talked with a banker in New York, who said, 'Those are not the people who do it; we do it. When a customer comes in and wants a loan or an extension of loans we tell him how much he can have, how much he can extend his credit. So we are the people that do it.'

"The CHAIRMAN. May I interrupt you to ask you whether you distinguish between reserve city bankers and other member banks?

"Doctor COMMONS. Well, as I talked with the country banker in Wisconsin, he told me, 'We get our orders from New York.' Well, that is perfectly rational. 'Either we are in a squeeze and tighten up or in a position where we have to loosen up. If we tighten up or loosen up we get the orders from New York.'

"That is the way they put it to me. I have never seen any of those orders in writing, and I don't know; but that is what they told me.

"The CHAIRMAN. Since the Federal reserve system was organized, the former practices have been completely changed?

"Doctor COMMONS. Yes.

"The CHAIRMAN. The secondary reserve banks have discovered the value of the dollar reserved in the Federal reserve bank, and to have the greatest amount of credit available in case of emergency are carrying a class of securities that is readily eligible in the Federal reserve banks.

"Doctor COMMONS. Yes.

"The CHAIRMAN. Whereas the country reserve banks have more or less trouble in having eligible paper which they could use in an emergency?

"Doctor COMMONS. Yes.

"The CHAIRMAN. In other words, some of the big city banks have millions of dollars worth of Government securities which they can turn over into the Federal reserve bank at a moment's notice and secure a line of credit, and that permits them to act in a way as a secondary reserve, because they are the custodians of bank balances.

"Doctor COMMONS. I was going to bring that in under the head of how to construct an index number; that is the reason why I say that the wholesale prices should be the index number.

CONGRESS SPEECH IS RECALLED

"Mr. CANFIELD. One thing I would like to bring in here. On May 23, 1922, Mr. SWING, of California, made a speech on the floor of the House in which he made these remarks:

"I was present at a meeting of the bankers of southern California held in my district in the middle of November, 1920, when W. A. Day, then deputy governor of the Federal Reserve Bank of San Francisco, spoke for the Federal reserve bank, and delivered the message which he said was sent there to be delivered. He told the bankers there assembled that they were not to loan any farmers any money to hold any crops beyond harvest time. If they did, he said, the Federal reserve bank would refuse to rediscount a single piece of paper taken on such a transaction. He declared that all the farmers should sell all their crops at the harvest time unless they had money of their own to finance them, as the Federal reserve bank would do nothing toward helping the farmers hold back any part of their crop, no matter what the condition of the market. I think I was the only person present who was not a banker. This was in a way confidential advice, being given by the Federal reserve bank for the guidance of small bankers.

"I say that was the admitted declared policy of the Federal Reserve Board made by an officer of the board delegated for the purpose of making an announcement for the information and guidance of the bankers of my district. No one could be in doubt for one minute as to what the natural, logical, and necessary consequences of such a policy would be. If the entire crop of the country is thrown on the market at the time of the harvest, of course, the market would be depressed. You can bear the market or you can bull the market. The Federal reserve bank deliberately set out to bear the market. Now, if they could do that at that time, have they not done that with other commodities, and can not that same system be used to stabilize money and to stabilize wholesale prices?

"That is my argument. That is what I contend.

"Doctor COMMONS. That speech was supposed to be given in November, 1920. Suppose that at that time the Federal reserve system had known these things which they learned in 1922 and 1923. My idea of what they have done is this: If they did not want prices to fall as rapidly as they did, from 247 to 138, they could have started buying securities, which they did begin buying in 1923. They could have started buying securities in 1920. Instead of keeping the discount rate up to 7 per cent, they could from 1920 down to the middle of 1921 have reduced that discount rate gradually.

"They could not have stopped the deflation, but they could have put a cushion on it; they might have stopped it at 160 by buying securities. They held up the rediscount rate until they squeezed the blood out of

everybody. They might have shortened that rediscount rate much earlier; they might have prepared for it by buying securities. They did not have the experience; they did not know what they were doing. Two men did know what they were doing. I told you about them this morning.

"Mr. STRONG. I am sorry we do not have their names so that we could immortalize them.

"Doctor COMMONS. You will never get their names from me, but I will swear that they told me they did it.

DEFLATION AS FARMERS FELT IT

"Mr. STEAGALL. At Omaha, Nebr., we had a committee that was making inquiry into the Federal reserve system, and we got into that matter of deflation in 1920 and 1921, and one of the officers of that bank handed us a chart.

"I asked about the seasonal demand, and he said that there would be an increase of fifteen or twenty million between June and October. I said, 'How much did your loans increase?' He said they had increased only about \$5,000,000. I asked him if there was not also a shrinkage in deposits in member banks and what had become of their seasonal demands for increased loans. He replied, 'They didn't get it.'

"I asked him 'How did they take care of their shrinkage in deposits?' He answered 'They had to collect from their customers,' who were the farmers. I asked him how the farmers were going to pay, and he replied that they would have to sell their crops for what they could get and sell them on a falling market.

"The impression it left me with was that this increase in borrowers represented city correspondent banks who were coming in to borrow without having the penalty rate imposed and relieving the larger banks. That was a conclusion that I reached. But that gave a key to the way the business was handled.

SENSE OF PUBLIC RESPONSIBILITY

"Doctor COMMONS. What standards do they have of concerted action and what kind of an index number do they propose to use if they stabilize?

"Having this great power, the whole question of policy turns on what are the standards that they use? Up to 1922 the sole standard of the member banks was to invest their balances to earn a profit—no sense of any public responsibility. They learned that would not do, that they could not earn the profit, and they acquired at that time a sense of public responsibility instead of private responsibility. In April, 1923, they formulated their public responsibility, and it consisted in the resolution of the Federal Reserve Board of April, 1923, which said that the open-market operations should thereafter be conducted with their regard to the effect on the general credit situation. So since April, 1923, their sense of public responsibility has been, so far as shown by their own rules, and of course there is no congressional rule governing them; they have adopted their own rule of responsibility, and their sense of public responsibility has been the general credit situation.

CRITICISM OF SNYDER INDEX

"Let me analyze the point that is included in their meaning of the general credit situation. I gather from this index that Carl Snyder presented to you last April—and Carl Snyder I consider one of the ablest statisticians dealing with this subject; he is the statistician of the Federal Reserve Board in New York, Governor Strong's assistant—in his construction of the index number he has included responsibility for these things; he has constructed, as stated in this testimony, an index number in which these wholesale prices are given a weight of 20 per cent. He has introduced along with that an index number of wages, which is given a weight of 35 per cent; he has constructed an index number on the cost of living, which is the retail prices, which he has given a weight of 35 per cent. He has constructed an index number of rents which he has given a weight of 10 per cent; making, altogether, 100 per cent.

"My contention is that this index number of wholesale prices should be given 100 per cent; that wages, cost of living, and rents have no place in an index number which is to guide this system, and my remarks will be addressed to that feature of your bill which gives the Federal Reserve Board power to contrive an index number of prices; and I contend that if the index number of prices which they contrive is to be done by Carl Snyder upon that basis, it will defeat everything which you have in mind of price stabilization, although Mr. Snyder is a friend of mine and we have worked these things out together.

"Mr. WILLIAMSON. You think the bill should specifically provide that the index number should be based on wholesale prices and nothing else?

"Doctor SIMMONS. Yes; and I will give my reasons for eliminating wages and rents.

"I gather from Governor Strong's testimony, and, moreover, from conversations with members of the reserve banks, that they feel that they should use their power to regulate and modify stock speculation. I contend that they have no business to pay any attention to stocks.

"I gathered also by conversing with bankers that they are afraid that if they should attempt to stabilize prices under a condition like the present, where there is a great fall in agricultural prices, that they

would stimulate overproduction in agriculture, which would be disastrous to agriculture, and in their minds is the idea that they are responsible for overproduction of agricultural products.

"I contend that they should have no sense of responsibility for agriculture; let the farmer get out of it the best he can by cooperative markets or doing something else.

SEEK PRE-WAR GOLD STANDARD

"Another thing that regulates their policy; they have a feeling—I gather this from talks with members of the Federal Reserve Board and of the Federal district, but I shall not give their names—they have a feeling that we should get back to the pre-war free gold standard, in which gold would move freely from one country to another. That would be contrary to our present managed gold standard where we have impounded the gold and there is no free movement of gold; and, furthermore, every country that gets on to a gold basis has to make a special arrangement with us for gold credits by which we will sustain their gold standard. So whenever they speak of getting back to a gold standard the only thing that they can mean is getting back away from our present gold-managed standard.

"Now, that means inevitably a continuous fall in prices. If we could get back to the pre-war standard, which is 100, whereas we are now up at 160, it means that we are going to get down to a lower price level.

"Mr. STRONG. But the stock should be kept up.

"Doctor COMMONS. Why have they not kept that up? I had that idea. I am certain a most influential man at that date had that idea, because they told me so, and this particular man is somebody that you would recognize. They had an idea of getting back to the pre-war free gold standard.

"The CHAIRMAN. What date was that?

"Doctor COMMONS. 1923 was the date when I interviewed them. Why did they stop in 1924? Governor Strong told you the reason why they reversed their policy. He said they found we could not continue, but had to change because of the depression in agriculture in the West, the failure of agricultural banks, and the menace of radical legislation.

"I would add also the presidential campaign. We had to have prosperity in 1924 and they brought on prosperity. They began buying, began reducing the rates, increased the volume of money, sent prices up from 145 to 161, and agricultural prices rose. They had fallen down here [indicating on chart] and agricultural prices went up 31 per cent; industrial prices went up 7 per cent. The average was from 145 to 161.

MENACE OF RADICAL LEGISLATION

"It brought back prosperity to agriculture. The policy, then, which comes under the head of the general credit situation, includes two things: Feeling that we ought to get back to the free gold standard, modified by a menace of radical legislation—whenever it is necessary to head off radical legislation we then give up the idea of reducing prices and we start an inflation. So we have under this general definition of credit situation several things included. Stock markets, rents, wages, free gold standard, and political menace. That is what causes the present oscillation. They have conducted two cycles under that general credit definition. They have conducted a cycle of raising prices and of lowering them.

"They found that they had overdone the lowering of them and brought on political menace. Then they started an inflation, and you notice that the date when they quit buying securities and began selling securities was October, 1924. The menace had passed, and then they started the deflation.

"Governor Strong in his testimony before you said it was a matter of judgment whether they ought to have started a little earlier on the deflation. They started the deflation in October, 1924.

"Mr. BEEDY. And then wholesale prices began to go down?

"Doctor COMMONS. Yes.

"The CHAIRMAN. According to your chart No. 1, the wholesale prices now are about where they were in the middle of 1924. Is it your thought, after having expressed the opinion of some of the Federal reserve men in 1923, that we should go back to a 1913 level, that that still is their thought?

"Doctor COMMONS. Well, I have submitted my manuscript to them, and they tell me that I am mistaken; that they have no intention of getting back to the pre-war price level. I have never said that they intended to get back to the pre-war price level; I have said that they intended to get back to the pre-war free gold standard. I do not know what the price level will be, but I say that it is the normal banking idea in New York, certainly, that we must have a free amount of gold, because it is the foreign exchange which they want to have stabilized.

"They are not interested in price stabilization as much as they are in foreign-exchange stabilization. They want to stabilize foreign exchange. They are not much concerned with what I, for example, in the West am interested in, a stabilization of prices.

FALL OF PRICES IN AGRICULTURE

"Mr. WILLIAMSON. Well, Doctor, in connection with the fall of wholesale prices, beginning in 1925 and continuing into 1926, why is it that that decrease in the wholesale prices has fallen chiefly upon agriculture? Now, the agricultural commodity prices have gone down much more rapidly since the middle of 1925 than the wholesale prices of manufactured goods; why did that attack agriculture other than other things?

"Doctor COMMONS. I am not able to answer that accurately. I have asked the Bureau of Agricultural Economics to furnish me a study of that situation. I will submit as the next exhibit the only chart which they have at hand.

"This is wholesale prices from 1922 to 1926, showing the difference between the amount of agricultural prices and nonagricultural prices. I put that in as an incomplete and imperfect answer to the problem which I have in mind. But I have this general conclusion to make, and I am confirmed in it by my correspondence and conversations with the statisticians of the Federal reserve system to this effect: All the other industries in the country have developed systems of stabilization in the last 20 years. It starts with the steel industry. They have smoothed out prices. They prevent overproduction. They have adopted business ethics which I described a moment ago that dominates the Federal Reserve Board and system, that competitors in the steel industry can compete as hard as they want to provided they do not cut prices or raise wages. They can compete on salesmanship.

"Nearly all businesses have adopted that principle. That is the fundamental idea of labor organizations, in which these industries are imitating labor. That there is a limited number of jobs and a limited number of customers, and it is not fair to pull customers or jobs away by cutting prices or raising wages."

(To be concluded in the issue of February 12)

[From the United States Daily, Saturday, February 12, 1927]

INDEX NUMBER THAT MAY EXCLUDE WAGES ADVOCATED AS BASIS—DOCTOR COMMONS ADVOCATES NEW INDEX NUMBER AT HEARING ON THE FEDERAL RESERVE ACT—DECLARES WHOLESALE PRICES ARE FUNDAMENTAL INFLUENCE ON LABOR RETURNS AND RENTS AND RETAIL PRICES

The stenographic transcript of the testimony given on February 4 by Dr. John R. Commons, of the University of Wisconsin, before the House Committee on Banking and Currency at a hearing on the Strong bill (House bill No. 7595), to amend the Federal reserve act, is continued below. Publication of the transcript was begun in the issue of February 5. Charts used by Doctor Commons to illustrate his arguments were reproduced in the issues of February 7 and February 10. The transcript concludes:

"Now, the farmers have not learned to do that. There is no conspiracy about it. It is perfectly lawful; there is no argument about this. It is just ethics. The farmers have not learned that ethics. The consequence is that any oscillation of the volume of credit by the Federal reserve system will spill into the agricultural field and affect agriculture more than it will affect these industries which have perfected their own stabilization system; that an increase of money, of credit, will raise agricultural prices more than it will raise the other prices, and if deflation will deflate agricultural prices more than it will deflate other prices.

"I think that the figures which the Bureau of Agricultural Economics will furnish me will demonstrate that. They have demonstrated it so far as they have furnished them. I am having my own students work on the subject, but it is not completed yet. When we had this deflation and the average came down to 138, agriculture came down to 120, or something like that. The average came down to 138 and agriculture came down to 120. That means industry came down to about 160.

"I am speaking of 1920 and 1921. When there is a deflation agriculture is hit harder than industry. Industry came down to 160 and agriculture came down to 120, and the average came down to 138.

"Mr. STRONG. I would like to state at this point that I had a letter from Governor Lowden, in which he says that this perhaps is the most intelligent analysis of the farmer's problem, this price-stabilization problem.

"Doctor COMMONS. I think the farmer is hit harder by these oscillations than any other people are. I think labor is hit hard, for this reason: The laborer's wages are not affected but labor's employment is affected. In that way labor is affected disastrously.

"The farmer's prices are affected more than the price of labor or the price of other commodities. I am not so certain about the movement. I think this increase here, farmer's prices, went up more. It started from a higher base. If you figure that it started from a higher base you will find that it did not go up so fast. This I do know: That in this depression agriculture went down faster than industry, and if you run a curve of industrial prices, nonagricultural, which includes manufactures and mining, you will find that moves pretty steadily right along here [indicating].

"If you run one of agriculture you will find it goes up here [indicating] and down here [indicating]. Here it went up 31 per cent and industry went up 7 per cent [indicating on chart]. Here it comes down. Industry has remained pretty steady. That is my theory about it. But the industries that have not yet learned this get-together proposition are bound to be affected by these oscillations more than those that have learned how to protect themselves against it.

"Mr. STEAGALL. Industry is not only less responsive to deflations and declines, but it is better by reason of organization to take advantage of an increase in price, is it not?

"Doctor COMMONS. It would seem so. I would want to study that a little. I have studied the gasoline business and some others, and the difficulty about it all is this; you study industries, prices prior to 1918, and you will find them going up and down this way [indicating], and then they straighten out that way [indicating on chart]. If you study the farmers' prices, you find that they are jumping up and down all the time. I can not answer your question; I do not know enough about it.

"I have a theory and hypothesis that I am putting forward to explain it, but it seems to me quite evidently the case that the farmer has suffered by these oscillations more than industry, and the only one that can compare with him is the laborer.

"Now, I am going to take up the index. This is my proposition. There should be only wholesale prices in the index number which is to be used. Furthermore, it should be weighted not by the consumption, not by the production, but it should be weighted by the number of people engaged in those different lines of production.

"We are interested in the question of justice and not in any economic question of production. If the farmer has 25 per cent of the population engaged in his industries and the manufacturers have 40 per cent of the population engaged in their industries, the farmer should have 25 per cent of the weight in making up that index number, so if his prices fluctuate all will be stabilized and not for the farmer alone, but all of these shares in the general production and all industries will be stabilized.

"I have had students figure this out. Remembering that this is only wholesale prices, see what it has eliminated. It has eliminated all retail prices. It has eliminated rents and stocks and stock speculation. It is simply commodities sold at wholesale. It is purely tentative, and if I get later figures I will furnish them.

"I have asked Carl Snyder and Ethelbert Stewart, in the Bureau of Labor, to investigate, and they have both promised to do it, but the conclusion I have reached so far is that one-half of the population is engaged in producing nonagricultural products for sale at wholesale prices, and one-half are engaged in agriculture. We have eliminated all railroad workers; we have eliminated all retail dealers and salesmen, so that we have got the population down to about 40,000,000, we will say, productive workers, one-half of whom are in nonagricultural and one-half of whom are in agricultural industry. They are the people that are producing the great commodities.

WOULD NOT INCLUDE WAGES

"Now, then, why should wholesale prices of commodities be alone included; why should we not include wages? Carl Snyder gives wages 35 per cent and wholesale prices only 25 per cent weight. In the first place, labor is not a commodity. Wages is not a price for a commodity. Wages is an income for a living, and there is no more reason for including wages in an index number than there is for including rents and interest and profits.

"There are three kinds of income. Furthermore, the laborer's daily wage is not the important thing for the laborer; it is his annual income, and his daily wage is a method of computing his annual income. So it should not be included in the index. Rents in the same way. Rents should not be included. They are annual rents or periodic rents for the use of an instrument which is scarce and which is increasing in price, and they are not commodities. Furthermore, contracts for rent are only made by the year usually. We have a sensitive index which will change every week and show the effect.

"In the third place, all the big banking of the country, the dominant banking of the country, is the banking which finances wholesale production, not retail production. Retail operations, if they were put in there, would be taking the standpoint of the consumer, the ultimate consumer. Stocks and speculations should not be included.

"Mr. Snyder does not include stock speculation, but he might as legitimately include it as to include rents and wages. Stock speculation is an anticipation of wholesale prices. If wholesale prices are going to rise it is going to mean that the business interests are going to make more profits and stock prices are going to rise. Stock prices are forecasts of wholesale prices.

"On the other hand, rents and interest and wages are results or effects of these wholesale prices. If these wholesale prices are rising then it is likely that labor is going to get higher wages or rents are going to be higher. If they are going to fall it is likely that wages will fall.

"Furthermore, wholesale prices are the prices on which the great bulk of the population pay their taxes and pay their debts, and they are the prices also that foreign nations pay their debts to you on.

CONTROL HELD OVER PRICES IN EUROPE

"One of the arguments presented against this process of stabilization is that we can not control the prices of Europe. I contend that we control the world prices, that as long as all the nations of the world are in debt to us and sending gold to us they must subordinate themselves to our Federal reserve system. So that our Federal reserve system sets not only the prices for America but it sets all the export prices for foreign countries, and they pay in the gold dollar such as we adjust.

"Mr. STEAGALL. Well, we look forward to the time when that condition will not exist, do we not?

"Doctor COMMONS. When we get back to the free gold standard we will dominate the gold situation.

"Mr. STRONG. Do you think we ought ever to get back to the free gold standard?

"Doctor COMMONS. I do not. I think if we get back to the free gold standard we lose this power, referring to this stabilization, of retaining the present managed gold standard. Otherwise we can not stabilize. If they have any idea of getting back to the free gold standard it means lowering the price level.

"The CHAIRMAN. You are indicating that you favor this controlled gold system in preference to the free gold system.

"Doctor COMMONS. I certainly do.

"The CHAIRMAN. You do not see any danger by this credit situation?

"Doctor COMMONS. I see no danger in the Federal reserve system; I think it is the greatest advantage we could possibly have, provided it has a legislative rule.

"Mr. STRONG. Which we are now trying to consider.

"Doctor COMMONS. As I said in starting, it is the only administrative body in our system which Congress has created and has given it no standards.

"Mr. STEAGALL. You do not contemplate that this legislation would give any more power to the Federal reserve system?

"Doctor COMMONS. No. But they have no legislative standards.

"Mr. STEAGALL. As I recall, Governor Strong and others who discussed this before the committee have not particularly favored this idea of putting this power altogether in Congress, but thought that it was better to leave this discretion in the boards without any specific directions.

"Doctor COMMONS. If they adopt Carl Snyder's index number of prices then I would not leave it to them. Carl Snyder's index number will show a rising price at this time, and this is showing a falling price [indicating on chart No. 1]. It will include wages, which have not fallen. It will include rents, which are increasing; it will include retail prices, which we all know lag six or eight months below wholesale prices and do not fall as rapidly as wholesale prices.

"Mr. STRONG. What are the dangers of politics entering into the Federal reserve policies with and without this legislation?

METHOD TO KEEP POLITICS OUT OF IT

"Doctor COMMONS. I think this is the only method of keeping them out of politics. I think they are already in politics. They are compelled to be in politics because they have no standards. I think the operations in 1924 show that they are in politics, and Governor Strong's statement before this committee, that they did what they did in 1924 on account of the menace of radical legislation shows that they realized they were in politics.

"The only way I can see they can be kept out of politics is an index number based so evidently on principles of justice, weighed so evidently according to the proportion of people in each occupation, that it can be explained to the entire public that here is a perfectly fair index number, and therefore you as a wheat grower, if you find that your prices have fallen, you can not change the whole system in order to have wheat raised in price because you are only about 5 per cent of the total population engaged in this thing.

"We have developed a system, through Congress creating a commission—this bill provides for something of that kind—which shall determine upon an index number and a proper weighting, which shall do justice. As long as the people of this country are satisfied that there is needed a secret method, that they can not understand, or a public method which is so complicated that they can not understand, there will be politics in it, but as soon as they see that there is a simple method, and a weighting in which each element of population gets its proper weight, establishing a new index of prices, I feel that the thing is out of politics.

"Mr. WILLIAMSON. Is it your thought that we should write into a bill what the index number should be based upon? In other words, that it would be useless to direct them to follow a certain policy and let them form an index number which would set up a policy of their own?

"Doctor COMMONS. Yes; that is my criticism on your bill. If I may refer to the provision here, in this third revision, it says the Federal Reserve Board shall formulate an index number to reflect the current purchasing power of the dollar in terms of commodities. You can call rent a commodity or wages a commodity. Commodity is a word that means anything that Carl Snyder has included in that index

number, and I think that is fallacious. I think you ought to be more specific than that.

"Mr. STRONG. I agree with you that we ought to provide a proper index number if we are going to direct them to follow an index number.

"Doctor COMMONS. It is your business to state, representing more people, your collective idea of what will be just, and then work out the technical details later, but you have to establish your standards of justice, as I see it, now.

FORECAST MADE FOR YEAR 1928

"Mr. BEEDY. We may look for this thing to happen in 1928 if your premises are sound, namely: The gradual rise of the securities line on chart No. 1, and the gradual rise of the wholesale price line and the gradual rise of the demand-deposit line.

"Doctor COMMONS. And interest rates.

"The CHAIRMAN. Interest rates on commercial paper?

"Mr. BEEDY. I shall look to see that come down.

"Doctor COMMONS. Yes; to come down.

"Mr. BEEDY. The discount rate to come down.

"Doctor COMMONS. In 1924 it came down 3 per cent. Three per cent is the lowest it has reached in the history of the system.

"Mr. BEEDY. I shall look for the rediscount line to come down and the commercial-paper rate to come down also, and we shall await developments in 1928 with great interest.

"The CHAIRMAN. Before you leave, I want to express on behalf of myself, and I think of the committee, our appreciation of your statement, which has been most helpful to us.

"Mr. BEEDY. If I may, and for the record, I think I will voice the sentiment of this committee when I say that the doctor's testimony has been the fairest, the most convincing, and the most analytical of any testimony which has been offered on this measure before this committee, and personally I am indebted to him for appearing here before us.

"Mr. STRONG. Might I say, also for the record, as one who has been trying to keep this matter of stabilization alive and bring it to some final result, that I want to thank Doctor Commons for his testimony, because I think he has placed in the record statements that will convince the average citizen, and a majority of this committee, and, I hope, the Federal Reserve Board, of the need for some such legislation.

"Doctor COMMONS. I thank you."

(Thereupon the committee adjourned.)

EXHIBIT B

RESERVE BANK BROKE FARMERS, SAYS HARDING—FORMER GOVERNOR HARDING, OF IOWA, BOOSTS WATERWAY—W. L. HARDING ADDRESSES JOINT SESSION OF STATE LEGISLATURE FRIDAY—WANTS WATERWAY AT ONCE—LAMPOONS FEDERAL RESERVE BANK SYSTEM AS CURSE OF THE FARMING INDUSTRY

In response to the request of former Gov. W. L. Harding, of Iowa, in his speech before the joint session of the North Dakota State Legislature Friday afternoon, the joint session moved that a concurrent resolution be drawn memorializing President Coolidge to immediately initiate a treaty with Canada providing for the construction of the tidewater canal to be ready for the ratification of the United States Senate when it convenes in December of this year.

Former Governor Harding brought the Great Lakes-St. Lawrence project question most forcibly to the audience composed mostly of legislators and drove home to them the possibility of securing desired action if sufficient demand is made by the Northwest.

"You people want to tell the President of the United States that you want this thing done at once," said the Iowan. "You don't want to carry the idea that a President or a governor is any more than anyone else; don't be afraid of them, but tell them what you want, and you will get it if you are impressive enough. I used to think that a President must be as big as a house, and that a governor must be as big as a coal shed, but I have found since having been a governor that they are just ordinary people. I respect the position, but I do not fear the man. Make your wants known strongly enough, and you will get what you want."

In opening the discussion on the tide-water project the speaker asked the audience if there were anyone present from the State of Tennessee for them to hold up their hands. No hands were hoisted, so he continued that he thought it safe to announce to begin with that the earth is round.

This point was mentioned to introduce the fact that the St. Lawrence route is nearer than any other route on the North American continent to the world markets, principal of which is at Liverpool. "All nations ship to the Liverpool market," said the speaker, and almost all of the other grain-producing nations have a more direct route to that market than does the northwestern territory in the United States. If we can get this St. Lawrence project through, we can place North Dakota better than on an equal shipping footing with other grain-producing areas. "New York," he said, "is opposed to the project, for New York has grown rich and powerful by

collecting toll on what the West produces and sells to Europe. We have no ill feeling for New York, but it is time for us to look out for ourselves."

The speaker stated that it would cost this Nation about \$123,000,000 to complete the waterway project, but the saving it would afford to shippers in the Northwest would amount to approximately that much every year. Besides such savings power might be developed for sale along the route at little additional cost after the dams necessary to the project had been put in. The cost, he explained, would amount to little as compared to the benefits that will be derived. "This is a thing that you people should fight for, if you have to," he continued. "I understand your governor here doesn't believe in fighting, but this is something worth going after in any way that will get it."

RAPS FEDERAL RESERVE SYSTEM

The speaker digressed from his topic for a few minutes to pay his respects to the Federal reserve banking system, which is doing its part to cripple agriculture. Mr. Harding showed that agriculture is in the pits for the principal reason that the Federal reserve banking system does not consider it as an industry. Notes with farm lands, buildings, and farm products as security will not be accepted for rediscount by the Federal reserve system, but this same system will accept flour and livestock after it has been slaughtered as such collateral. Before the Federal reserve system was organized agriculture was considered as an industry, and land and the products of the soil together with livestock were acceptable as a basis for current issue. It has been this indefensible discrimination against the farmers' property that has acted chiefly to ruin the farming industry. The speaker sounded the warning that we are to-day living in the seventh civilization the world has known. Six of the civilizations have fallen, and history tells us that they have all crumbled when agriculture began to fall behind other industries.

The amusing instance of the day bobbed up when Lafe Twitchell, archreactionary from Cass County, proposed the appointment of the committee to draw resolutions memorializing the President to take immediate action with Canada looking to the development of the waterway and resolutions also memorializing the Federal reserve banking system to cease its discrimination against the agricultural industry.

EXHIBIT C

INFORMATION RELATIVE TO THE ORIGIN AND OPERATIONS OF THE FEDERAL RESERVE SYSTEM

This week I received a request from North Dakota, as follows:

"Many of us have not as clear an idea of the Federal reserve bank and its workings as we should have. Can you tell us through the Courier-News—

"1. How the Federal reserve was started?

"2. What it pays the Government for money it gets of it? How much, etc.

"3. Who are the beneficiaries of this Federal reserve bank?

"4. How money can be contracted through it, etc."

There are so many angles involved in this request that it is quite impracticable to answer in detail, as it would impose upon the space in the Courier-News. However, I hope to discuss various details at different times, so that the people may have some specific information relative to the workings of the Federal reserve system.

1. HOW WAS THE FEDERAL RESERVE STARTED?

Paul M. Warburg, former member of the firm of Kuhn, Loeb & Co., international bankers of New York, and which firm was found by the Pujo committee to be one of those firms that constituted the Money Trust, is the person who really brought about the Federal reserve system. It was his idea. Warburg was born in Germany in 1868; he came to the United States in 1902. The German banking house of the Warburgs was established in 1796. Warburg is the finished product of many generations of international bankers. His world-wide education thoroughly equipped him for the opportunities of international banking on a large scale. Notwithstanding the fact that he came to America in 1902, he did not become an American citizen until 1911. In 1906 he commenced an active campaign to put his banking ideas on the Federal statute books. He was active in the Aldrich measure, and by that measure committed the Republican Party to his banking program. The Democrats, very righteously, rose in arms and defeated the Aldrich measure and then turned right around and nestled Warburg to their bosoms, camouflaged and modified the proposals contained in the Aldrich measure, and passed the Federal reserve act. The Republicans already having been committed to its principles, which, if possible, was the more vicious of the two, as embodied in the Aldrich bill, could not offer any substantial resistance to it, and it is doubtful if they desired to do so. When Warburg was before the Senate Banking and Currency Committee testifying in the hearings on his nomination to the Federal Reserve Board, he stated:

"I have, as you know, taken a keen interest in this monetary reform since I have been in this country. I have had the success which comes to few people of starting an idea and starting it so that the whole country has taken it up and it has taken some tangible form."

This committee who heard Warburg say this was in a position to known who was responsible for the Federal reserve act, and no voice was raised to question his authorship. He further stated, when asked to explain the fundamental differences between the Aldrich plan and the Federal reserve plan, that—

"The Aldrich bill brings the whole system into 1 unit, while this deals with 12 units, and unites them again into the Federal Reserve Board. It is a little bit complicated, which objection, however, can be overcome in an administrative way."

Mr. Warburg was chosen the administrator to overcome the objections and making it conform to the possibilities of a central-bank idea. How well he succeeded its drain upon the people of this country should amply testify.

This is a brief statement as to how the Federal reserve system was started.

2. WHAT DOES IT PAY THE GOVERNMENT FOR MONEY IT GETS FROM THE GOVERNMENT?

The last definite information I have on this subject is as late as February 8, 1922, and I do not think the conditions have materially changed since that date.

Under the provisions of section 16 of the Federal reserve act Federal reserve banks are required to reimburse the Treasury Department for all expenses necessarily incurred in connection with the printing, issue, and retirement of Federal reserve notes. The act also empowers the Federal Reserve Board to establish a rate of interest which each Federal reserve bank shall pay on the total amount of its Federal reserve notes outstanding less the amount of gold and gold certificates held by the Federal reserve agent as collateral security. Up to February 8, 1922, however, the board had not required the reserve banks to pay interest on the Federal reserve notes issued to them, justifying such failure to do so upon the ground that all net earnings after the payment of the annual dividend of 6 per cent are either paid to the Government as a franchise tax or are transferred to surplus account in accordance with the provisions of the Federal reserve act. However, the ingenuity of bankers helps them take care of a great many things. Severe criticism has been made relative to increase of salaries of bank officials and employees and the building of bank buildings—the New York Federal Reserve Bank proposed to build a marble banking palace to cost approximately \$25,000,000. The banks are also required to pay a tax of one-half of 1 per cent each half year on the average amount of such bank's notes in circulation. This is equivalent to the rate charged national banks on their circulation. Up until December 31, 1921, the Federal reserve banks paid to the Government in franchise taxes the sum of \$124,537,336. This was all, notwithstanding the fact that they were doing billions of dollars' worth of business. The proposed bank building in New York was to cost a fifth of this sum.

3. WHO ARE THE BENEFICIARIES OF THE FEDERAL RESERVE SYSTEM?

Those who own and control the system, of course, and it is owned and controlled by the big bankers. It is a common misunderstanding that the Federal reserve banks are public institutions owned by the people. They are not. They are private banking institutions, and their officials have so testified before congressional committees. They are operated for private gain. Congress simply delegated to them, under the provisions of the Federal reserve act, the control and use of the money and credit of this country. Congress had no moral right to do so, if it had the legal right. The Constitution places upon Congress the duty of regulating and controlling the money and credit of this Nation, and it was morally criminal to delegate those functions to private bankers to operate for their own private gain. Of course, at times, there must be resultant benefits to the people and temporary prosperity in order to make the system profitable to the bankers; but there are also the periods of depression which sweep away all of savings and prosperity and more completely forge the chains of economic servitude. The power is in the hands of the bankers who control the system to bring about either that they desire. It is mere prating for them to talk about prosperity is just around the corner, because they alone can turn the corner when they desire. Natural economic conditions no longer control the situation in this country. Unnatural, fictitious conditions of the bank manipulators control, and they control under a quasi partnership with the Government and under the protection of a delegation of powers by Congress. Congress must undo what it has done and restore to the people the control and exercise of the sovereign function of the issuance and control of money and credit.

4. HOW CAN MONEY BE CONTRACTED THROUGH THE FEDERAL RESERVE SYSTEM?

The Federal reserve system set up a system of bank credits that enveloped the country in debt without putting the necessary corresponding amount of money into circulation to help them pay out when paying time came. The most of the loans made throughout the country were loans of bank credit. If you went to a bank to borrow, your loan was placed to your credit at the bank and you drew your checks against it. You saw very little of the money that your debt was supposed to represent. It was a system of bookkeeping. The debts were created, but the

money did not go into circulation. When the Federal reserve system was ready to contract it simply stopped the issuance of bank credit, and you could not borrow from your banks any more. They had no bank credit to loan. It had been stopped by the system. There were about ten times as large an amount in debts due through the Federal reserve system as there was money in circulation. It was only a matter of a short time after these debts were called for payment until all the money in the country was drawn into the Federal reserve banks, and still the larger proportion of the debts remained unpaid. Then the only way the people could get money with which to pay the debts or to purchase the necessities of life was to sell their products or their property. They held the money, and they owned the debts. This gave them control of the situation, so that they could dictate the prices the producers of the Nation were to receive for their labor and products. They not only contracted the currency but deflated everything else the average citizen had. Especially did they deflate the farming class.

Mr. HEFLIN obtained the floor.

Mr. BLEASE. I suggest the absence of a quorum.

The PRESIDING OFFICER. The absence of a quorum being suggested, the Secretary will call the roll.

Mr. McLEAN. Mr. President, I do not think any business has been transacted since the last call.

The PRESIDING OFFICER. According to the precedents of the Senate, a motion to adjourn having been made and having failed of passage, business has been transacted, and the question of a quorum is in order. The Secretary will call the roll.

The legislative clerk called the roll, and the following Senators answered to their names:

Ashurst	Fess	McKellar	Schall
Bayard	Fletcher	McLean	Sheppard
Bingham	Frazier	McMaster	Simmons
Bleas	George	McNary	Smith
Bratton	Gerry	Mayfield	Smoot
Broussard	Glass	Metcalf	Steck
Bruce	Gooding	Neely	Stephens
Cameron	Hale	Norris	Swanson
Capper	Harris	Nye	Trammell
Caraway	Harrison	Oddie	Tyson
Copeland	Hawes	Overman	Wadsworth
Couzens	Heffin	Pepper	Walsh, Mass.
Curtis	Howell	Phipps	Walsh, Mont.
Deneen	Johnson	Pine	Warren
Dill	Jones, Wash.	Reed, Pa.	Watson
Edge	Keyes	Robinson, Ark.	Wheeler
Edwards	La Follette	Robinson, Ind.	Willis
Ferris	Lenroot	Sackett	

The PRESIDING OFFICER. Seventy-one Senators having answered to their names, a quorum is present.

BRANCH BANKING

Mr. HEFLIN. Mr. President, it is a very important measure that the Senate is now considering. I regret that methods have been employed to force consideration of this measure at this session of Congress. It seems that it so often happens that whenever legislation is sought regarding the banking system there is great pressure brought to bear from certain financial interests for speedy action, for action that will deny Senators the opportunity to study the measure before them so as to acquaint themselves thoroughly with the provisions of the measure proposed. Cloture has been resorted to in the Senate in the closing hours of this session of Congress to put through a banking bill fraught, I fear, with grave danger to the masses of the people of this Nation.

When silver was demonetized in 1873 the phraseology of the law was so cunningly arranged that many Members of the House did not know what was being done. Members of the House and Members of the Senate, after that measure became the law, denied that one word had ever been said about the power being given in that measure to bring about the demonetization of silver.

So we can not be too particular when we come to consider any measure pertaining to the banks and the banking business of our country. There are interests behind legislation seeking to get more advantage that must be scrutinized and must be watched by those who are sent here to represent the people of the various States.

It has been hinted even that the clause authorizing the demonetization of silver was slipped into the law or changed after it was passed. At any rate, Members of the House and Members of the Senate declared that their attention had never been called to the provision that brought about a great panic in the United States in 1878. Property values were destroyed by the millions and our people were thrown into a great financial panic.

In 1920, when the Federal reserve banking act was amended, an innocent-looking progressive interest rate amendment was offered in this body by the distinguished Senator from Connecticut, whose handiwork is manifest to-day in seeking to railroad this bill through the Senate. I refer to the Senator from Connecticut [Mr. McLEAN] who is now approaching his seat.

Mr. McLEAN. Mr. President—

The PRESIDING OFFICER. Does the Senator from Alabama yield to the Senator from Connecticut?

Mr. HEFLIN. I yield for a question.

Mr. McLEAN. I want to ask the Senator if he has read on page 35 of the bill that it passed the Senate on May 10, 1926? It is rather difficult to force down the throat of the Senate a bill which the Senate swallowed nearly a year ago with great relish.

Mr. HEFLIN. Yes, Mr. President; and I was opposed to provisions in it then, and I have helped to hold it, and now, since I understand them better, I am more alarmed about its provisions than I was then.

Mr. McLEAN. What the Senator needs is a stomach pump.

Mr. HEFLIN. I am going to use another kind of instrument on the Senator from Connecticut just here. The Senator from Connecticut was instrumental and exceedingly handy in passing the amendment to which I have referred. He introduced it in this body, and it was passed through the Senate, and only two Senators discovered the panic-producing power lodged in that short amendment. It produced the worst financial panic that ever cursed a free people. That amendment was introduced in the House by the Republican chairman of the Banking and Currency Committee of that body, and it was argued that the amendment was being put on the act, not for the purpose of denying money and credits to the people out in the country generally but to keep money from going to New York; too much of it was going there, they said, and this amendment was being put on, they claimed, to enable them to increase the interest rate in New York and to run it to such a high figure that they would not want to pay the high interest rate.

Mr. President, that amendment was passed through the House and was passed through the Senate. That was just before I came to the Senate. It was when I was in Alabama making my race for the Senate. The Senator from South Carolina [Mr. SMITH] and the Senator from Oklahoma [Mr. OWEN] were the only two Senators who discovered the deadly power to produce a panic that had been placed in that amendment, and a Member of the House, a Democrat from Oklahoma, Mr. McGowan, and another one from Arkansas, Mr. WINGO, were the first Members of the House to discover it.

Mr. W. P. G. Harding, the warm friend of the Senator from Connecticut, the gentleman whom I have dubbed as William "Poison Gas" Harding, appeared here at the Capitol. He told the committees of both bodies that that amendment was an innocent one. He said, "There is no harm in it. What we are trying to do is to keep the bulk of money from going to New York, so that we can send it to the South and the West to aid them at crop-moving time."

The Senator from South Carolina [Mr. SMITH] said to Governor Harding, "If that amendment is adopted, it will precipitate the worst financial panic that ever came upon the country." The amendment was passed by a Republican House and a Republican Senate, and the worst panic that ever visited the United States came to plague and rob us.

Mr. President, my knowledge of the history of the demonetization of silver and my knowledge of this amendment to the Federal reserve banking act is such that I must move cautiously when I see another effort being made to give more power to the big banks of the country and to set up a national branch-banking system in the United States.

Let me read the plank of the Democratic platform on this particular subject on which Woodrow Wilson was elected in 1912:

We oppose the so-called Aldrich bill or the establishment of a central bank; and we believe the people of the country will be largely freed from panics, and consequent unemployment and business depression, by such a systematic revision of our banking laws as will render temporary relief in localities where such relief is needed, with protection from control or domination by what is known—

Listen to this—

as the Money Trust.

Banks exist for the accommodation of the public and not for the control of business.

I fear that there are Senators in this body who mistake the purpose of a bank. I fear that there are Senators in this body whose conduct leads their associates to feel that they are seeking to give more advantage and more power to the banks because they are banks and because of the power of those who own and run them. That is not the correct position for Senators to assume. Banks ought to be protected in their legitimate functions. They are necessary institutions. We need them, and they ought to be encouraged and protected in all

their rights and interests. But the Government of the United States should never permit itself to reach the point where it stands ready to come at the beck and call of a banking system, giving that system more and more power to work injury upon the people, whose Government this is.

The people who support banks and who are served by banks have rights and interests that must not be forgotten.

I read further:

All legislation on the subject of banking and currency should have for its purpose the securing of these accommodations on terms of absolute security to the public and of complete protection from the misuse of the power that wealth gives to those who possess it.

Mr. President, any man of intelligence who still loves his country, and thinks that he ought to put his country first, knows that there is a dangerous power rearing high its ponderous form in the United States known as the Money Trust. It is here. It is here now in the Capitol of this Nation. It is here operating to secure legislation to permit the national banks to go into the branch-banking business in this country.

Some Senators deny that. It may be that they do not understand the measure. They may be as some were when they demonetized silver. They may be as they were when they put that obnoxious and dangerous amendment on the Federal reserve banking act.

Mr. President, I want to say, in passing, that I offered in the Senate an amendment to repeal that dangerous and deadly thing which they fastened on the Federal reserve banking system, and this body adopted my amendment, and it was adopted by the House, and we took that amendment off the Federal reserve banking act. My amendment repealed the provision under which they produced the panic of 1920 and 1921. The Progressive platform contained this plank in 1912:

We believe that there exists imperative need for prompt legislation for the improvement of our national-currency system. We believe the present method of issuing notes through private agencies is harmful and unscientific. The issue of currency is fundamentally a Government function, and the system should have as basic principles soundness and elasticity. The control should be lodged with the Government and should be protected from domination or manipulation by Wall Street or any special interests. We are opposed to the so-called Aldrich currency measure, because its provisions would place our currency and credit system in private hands, not subject to effective public control.

Here is a statement made by one of the greatest statesmen of his time and all time, Woodrow Wilson:

It is a mere truth to say that the financial resources of the country are not at the command of those who do not submit to the direction and domination of small groups of capitalists, who wish to keep the economic development of the country under their own eye and guidance. The great monopoly in this country is the monopoly of big credits. So long as that exists our old variety of freedom and individual energy of development are out of the question. A great industrial nation is controlled by its system of credit. Our system of credit is privately concentrated. The growth of the Nation, therefore, and all our activities are in the hands of a few men. An invisible empire has been set up above the forms of democracy. We have been dreading all along the time when the combined power of high finance would be greater than the power of the Government.

Mr. President, we have about reached that time. Under the reign of the Republican Party the money lords of the Nation have their will with practically every big measure that comes before Congress. Their mouthpiece here in the Cabinet, richer than any man in the Old World or the New, is the Republican Secretary of the Treasury. He is their special friend and representative at the Capitol. He is what is called the unofficial spokesman of the White House. That is what we have come to in this morning of the twentieth century, and money has become the all powerful and dominating thing. Those in high financial circles, who want to control more completely the money supply and credits of the Nation, have come here and put into a banking bill just about what they want. They have lopped off this and that feature objectionable to them until it is now ready for passage with a national branch-banking system tied into it so tight that trouble—serious trouble, I fear—will come from it. I read further from this great Democrat, Woodrow Wilson:

Have we come to the time when the President of the United States, or any man who wishes to be President, must doff his cap in the presence of this high finance and say, "You are our inevitable master, but we will see how we can make the best of it"? We have restricted credit and control of development and we have come to be one of the worst ruled, one of the most completely controlled and dominated governments in the world, no longer a government of free opinion—

no longer a government by conviction and the vote of the majority, but a Government by the opinion and duress of a small group of dominant men.

Mr. President, the money question has been one of tremendous importance through the long history of the human race. Wherever it has not been held in check and intelligently controlled it has destroyed the liberties of the people. The same kind of pernicious banking activities that brought ruin to the countries that have perished are at work here now in the Government of the United States.

I am a friend of the Federal reserve banking system. I helped to create it. I think that when honestly administered it is the finest banking system ever created. But, Mr. President, the purpose of its creation seems by many to have been forgotten. It has been perverted in some places from the purpose of its creation. We established 12 regional banks, 3 in the South, 3 in the North, 3 in the East, and 3 in the West. We wanted a group of those banks to be in each of the various sections of the country. It will be recalled that New York wanted a central banking system. New York bitterly opposed the Federal reserve banking system. After the system was created it commenced to work smoothly and successfully. Business everywhere took on new life. Prosperity came. After a little while the South was prosperous, the West was prosperous, and the whole country was prosperous, and until the deflation amendment was adopted by a Republican Congress, and a financial panic made to order was forced upon us, no country ever fared better under any banking system than did this country under the Federal reserve banking system.

Mr. WHEELER. Mr. President—

The PRESIDING OFFICER. Does the Senator from Alabama yield to the Senator from Montana?

Mr. HEFLIN. I will yield in a moment. A panic was brought on under that system which destroyed property values in the farming South and West to the extent of \$30,000,000,000, more than six times the amount of the circulating medium of the people of the United States.

I now yield to the Senator from Montana.

Mr. WHEELER. I wanted to call the Senator's attention to the bible of Wall Street, which is the Financial Chronicle, in the February 12, 1927, issue, in which they speak as follows:

A "money power" that could never be defined or reduced to an entity, because it was only a political bogey, can, in the course of the consolidations, be definitely placed, and the patron of the far-distant local branch can offer proof satisfactory to himself at least that he is in its toils.

The menace is not a threatening possibility of the future. It is at this very moment an actual reality.

Mr. HEFLIN. That is very true. The system I speak of broke the power of Wall Street to produce a panic. Prior to the enactment of the measure creating the Federal reserve system, 21 men in Wall Street controlled the money supply of 100,000,000 people. They could meet together in a back room of a bank in the night time and produce a panic throughout the Nation within 48 hours. It was the rottenest banking system ever devised and we were seeking to get away from that system.

We were seeking to set up a banking system with three banks in the East, three in the North, three in the West, and three in the South, 12 regional banks in all, and what resulted? The farmers of my section could deposit their cotton in the warehouse, take their receipts to the bank and borrow money on those receipts, hold their cotton out of the hands of the speculator and the spinner, pay their debts to the merchant, and keep money in the community in circulation. Thus they had some power in price fixing, cotton brought a fair price, and the cotton growers were prosperous. The grain growers of the West did likewise. They could take their grain, put it in an elevator, get receipts, borrow money on those receipts and pay their debts, keep their grain out of the hands of the speculator and the miller and thus they got a fair price.

For the first time in my recollection the South and the West were prosperous as they have never been before. Mr. President, we may search the history of the Nation and we will not find a time when the farmers of the West—the people generally of the West—were so prosperous as they were the year preceding the Republican deflation period of 1920 and 1921. The people had money in their pockets. The banks had the money they needed to meet the business needs of the people in every community out there. The South had the money it needed to meet the business needs of our people for every purpose, and those two sections were prosperous?

But what happened? When the deflation panic was brought on, a pall of gloom fell on the South and West. What happened to the East? Governor Harding stated that he wanted

to apply that high interest rate to the East to keep money from going there; that he was not going to apply it to the South and the West at all. But the fact is he did not apply it at all to the East. He applied it nowhere except in the South and West. He raised the interest rates, as I have stated on this floor frequently, to 87½ per cent on one little bank at Abbeyville, Ala., my State. The rates ran from 20 to 30, 40, 50, and 60 per cent through the South and West, and the South and West were stricken down. They became the servants of tribute to the money barons of Wall Street, stripped of their substance and robbed of the accumulations of a lifetime.

What do we hear now? Banks are still failing through the West, and some of them are failing in the South. The farmers are impoverished. They have mortgaged everything they have; and here the Republicans are in the Capital of the Nation, with Mr. Mellon, worth a billion dollars and more, speaking for the money lords of the country, talking about Republican prosperity. We have prosperity amongst a few but not amongst the many. Republican Party prosperity is known by that fact. It makes the few exceedingly prosperous and makes the many people exceedingly poor. That is what is going on in the country now under Republican rule.

Let me read a little more about what Mr. Wilson said about this system:

In like manner by the currency bill we have created—

Speaking of the Federal reserve banking system—

a democracy of credit such as has never existed in this country before. For a generation or more we have known and admitted that we had the worst banking and currency system in the world, because the volume of our currency was wholly inelastic; that is, because there was more than enough at certain seasons to meet the demands of commerce and credit, and at other times far too little; that we could not lessen the volume when we needed less nor increase it when we needed more. Everybody talked about the abused system and its quite unnecessary embarrassments, sure to produce periodic panics, and everybody said that it ought to be changed, and changed very radically; but nobody took effective steps to change it until the present Congress addressed itself to the task with genuine resolution and an intelligence which expressed itself in definite action. And now the thing is done. Let the bankers explain the technical features of the new system. Suffice it here to say that it provides a currency which expands as it is needed, and contracts when it is not needed; a currency which comes into existence in response to the call of every man—

Listen to this, Senators:

A currency which comes into existence in response to the call of every man who can show a going business, and a concrete basis for extending credit to him, however obscure or prominent he may be, however big or little his business transactions.

Mr. President, I hope Senators on the other side of the aisle will not talk quite so loud. They disturb me.

Listen to this:

More than that, the power to direct this system of credits is put into the hands of a public board of disinterested officers of the Government itself, who can make no money out of anything they do in connection with it. No group of bankers anywhere can get control; no one part of the country can concentrate the advantages and conveniences of the system upon itself for its own selfish advantage. The board can oblige the banks of one region to go to the assistance of the banks of another.

That is a most beneficial provision.

The whole resources of the country are mobilized, to be employed where they are most needed. I think we are justified in speaking of this as a democracy of credit. Credit is at the disposal of every man who can show energy and assets.

Mr. President, what a glorious system it is that will extend credits where credits are needed and lend aid to the man and the woman in the common walks of life and as it lends aid to big business and those in the higher walks of life! That originally is what the Federal reserve system sought to do.

I read:

Each region of the country is set to study its own needs and opportunities and the whole country stands by to assist. It is self-government as well as democracy.

That is Mr. Wilson's statement.

Mr. President, I want to repeat that I am a friend of the Federal reserve system when honestly administered; I think it is the greatest banking system in the world, but to-day it is being so administered that Mr. Strong, of New York, the governor of the Federal reserve bank in New York, stated not long ago that it could be manipulated so as to have it do just what a large central bank would do. So the system in some places is being

maladministered, and it is the duty of this Congress to bring the Federal reserve system back to the purpose of its enactment and to see that it is carried out as it was originally intended to be carried out.

But, Mr. President, we are confronted by an alarming situation here to-day. There are probably not 40 men in both branches of Congress who understand the banking bill now before us. I confess that there are provisions in it that I did not understand when it was before the Senate a year ago.

It is a big question and should be considered by the Senate until every Senator understands all of its far-reaching provisions. Busy with the other work that we have to do, we rely upon a few men who have devoted their lives to the study and work of manipulating legislation for the big banking interests to help them put through cunningly devised measures and engraft on the statute books of the Nation power enabling them to reach out like an octopus with its tentacles into every nook and corner of the country, dragging money from this section and that to Wall Street which flourishes in evil doing; and Governor Strong still at the head of the Federal reserve bank up there boasts that this system is now working just as admirably as they had expected the central bank to work. That, Mr. President, is the worst indictment against it that I have ever read or heard. When a system is operated to the satisfaction of the crooks of Wall Street it is a dangerous and deadly system to the liberties of the American people.

Here we are under whip and spur lashing through the Congress in the closing days of the session a bill chock full of branch banking to be imposed on our national banking system.

What I should like to see is three separate banking systems, Federal reserve, independent national banks, and a State banking system, three in all, great systems, and every one vying with the other as to which could and would best accommodate the business needs of the people, as to which could and would do most toward encouraging enterprise and industry and promoting honest business in every nook and corner of the country. I am opposed to centralizing the banking power of this Nation into any one great banking organization, and that is what I fear is being done here. Let us encourage the banking systems of the States, an independent national banking system, and the Federal reserve system, instead of having them all finally merged into one all powerful centralized banking system. Such a situation is dangerous to the welfare of the people.

Mr. President, if a State permits branch banking, if it permits a State bank to operate a hundred branches in the State, and if the legislature of that State grows weary of the branch-banking business, finds that it is hurtful to the interests of the people and the business of the State, and seeks by legislative enactment to stop the branch-banking business in the State, that bank with its hundred branches can enter the national bank system under this bill, taking those hundred branches with it, and when the legislature wakes up it will be told, "Instead of abolishing us we have gone into the 'city of refuge'; the national bank act which was hurried through Congress in February under cloture, it gave us the power to slip into the national system, to continue in your midst these branch banks, and you can not do anything about it." Then what will we have to say? Yet such provisions are in the bill, and they are provisions which should not be incorporated in any banking measure.

Not only that, but this bill permits national banks which now have no branch banks to go into the branch-banking business if a State bank in the same city establishes branches. All that is necessary is to organize a State bank with capital furnished by the national bank. The new bank, which would be a State bank merely in name only, could then start a branch system. That would give the national bank which promoted the scheme the right to set up branch banks just as the State bank had done. Not only that, but those branches could be continued, for the State bank with its branches could be brought into the national bank system. Thus it is possible to have an octopus in every city with its tentacles reaching out into every nook and corner and into every avenue of business.

Oh, Mr. President, I fear that this banking bill will destroy independent banking. I do not want to see erected by legislation in my country any great and powerful organization that can reach out, establish its branches, and choke the little independent State banks to death. When that time comes, if a business man desires to obtain a loan of any consequence to carry on his business in the local community, he will be told at his bank, "We can not tell you now; we will have to confer with headquarters in New York." I have grave fears about the future if this banking bill becomes the law.

What has occurred in California? A Mr. Giannini, an Italian, who lives in California and has three banks in Rome, Italy, and some banks in New York, has 97 branches of his Bank of

Italy in California and has 200 or 300 branches of the Bank of Italy Corporation in the same State. He, in the main, controls them all—between 300 and 400 branches operating in one State—and he has already gone into politics out there. California had a Republican governor—Governor Richardson, I believe, was his name. Giannini wanted an order granted that he might further expand his banks, I am told, but Governor Richardson would not grant the order. So Giannini put out a candidate of his own—I think his name was Young, and he was recently elected in California—and sent word, so the newspapers stated, to the various heads of his hundreds of branch banks to get in touch with customers who borrowed money and tell them that he wanted them to vote for his candidate for governor. They did that; they elected his candidate; and after the new governor was elected he granted the order that the greedy branch banker wanted, reversing the action of Governor Richardson. So Giannini is in politics with his branch banks in California; and from what I can gather he is the most powerful and dreaded figure in the politics of that State to-day.

I quote the following from the Commercial and Financial Chronicle of February 12, 1927:

A "money power" that could never be defined or reduced to an entity, because it was only a political bogey, can, in the course of the consolidations, be definitely placed, and the patron of the far-distant local branch can offer proof satisfactory to himself at least that he is in its toils.

The menace is not a threatening possibility of the future; it is at this very moment an actual reality. Through the holding company one of the very largest of the California branch-banking institutions has already managed to absorb two or three New York City banks. If anyone has any doubt on that point, let him read the following, which appeared as a prominent news item in the New York Times on Wednesday of this week—let him read and become disillusioned:

"The Bancitaly Corporation will ask its shareholders in the next few days to authorize an increase of 1,000,000 shares in capital stock.

"The 1,000,000 shares for which authority will be asked will represent about \$100,000,000, one of the largest pieces of financing effected in this country. The plan for issuance of this stock is said to comprise an offer of 450,000 shares to present stockholders at \$100 a share in the ratio of one share for each five held, the balance to be held in the treasury to be sold when it is deemed advisable."

Oh, Mr. President, if we could realize just what we are going up against here, with so few Senators understanding the measure, and the vote on its final passage coming in a little while! I am fighting for fair and honest banking; I believe in sound money; I am for sound banking; and I am for banking arrangements that are unafraid, unintimidated, and uncontrolled by the money lords of Wall Street. I fear that this bill will lodge power with them to destroy the spirit of fair and honest independent banking in the country, that it will greatly expand branch banking, and enable the big banks to reach their hands into new territory where they have never gone before. That can be done through the system to be established. As I have suggested, all a national bank will have to do will be to furnish the finances for a State institution, set it up in business, have it establish branches, and then the national bank can establish branches in the same territory and the State bank and its branches can come into the system. Should we pass this measure, I feel that we would be opening the way for more extended branch banking. And that in my judgment would be harmful and dangerous to wage earners, farmers, merchants, and small bankers the country over.

Mr. President, there is a great deal more that could be said on this subject, a great deal more that I should like to say, but I have not the time. Money and credits constitute the life blood of business. They who control the money supply and credits of the Nation hold the power of life and death over the business of every person and every community in the country; and when we are called upon to give more power, and extraordinary power, to big banks, we should be exceedingly cautious and careful. We should not hasten to confer more power. We should in the name of the people demand that they exercise the legitimate power they already have, not to produce millionaires and not to produce billionaires, but to meet the requirements of citizens engaged in all kinds of business—to meet the business needs of all the people, to help build up business in every community and to help produce general prosperity in our common country. That is what all banks ought to strive to do, Mr. President.

But under Republican rule you have gotten out of the millionaire class. I remember, when I was a boy, when people talked about a man being worth a million dollars it created great interest and excitement. That is not even interesting

table talk now, under Republican rule. You do not even discuss millionaires at Republican breakfast tables now; you talk of billionaires. The other night—I referred to that occasion the other day—you had a Belshazzar's feast here in the Capital. The richest men of the Nation were here for "some purpose." Mr. Mellon was there with the other high lights in the financial world, a half dozen rich Republicans worth \$5,000,000, 000, and that is more money than all the money allowed, under Republican rule, to circulate in this Nation to-day—\$200,000,000 more than the circulating medium of the United States to-day. Big bankers with their agents are here now; they are in the gallery of the Senate, watching and waiting to see this measure pass. More power is being given to the big moneyed interests of the Nation; more power is being taken from the masses of the people, more curtailment of their currency supply, more opportunities to deflate credits, to contract the currency, and to produce panic, and more opportunity to kill the spirit of independent banking in the United States. These are the things I fear.

Mr. President, why should we hurry about giving a perpetual charter to these banking systems? We have eight years yet for the uninterrupted operation of the Federal reserve system, and as its friend I can not see the necessity for hurrying this thing through. Why do we want to give the New York interpretation of its meaning a hundred years more just now? Why not wait and let all these banks prove by their good conduct their right to have another lease of life? Let them demonstrate by their conduct in responding fairly and generously to the business needs of the people in every community their right to live longer, all of them. Why not do that?

Anybody who knows about this question at all knows that we have not got now enough money in circulation in the United States. All of the old masters of political economy and of fair and honest banking are at war with the small sum that our financial masters now permit to circulate per capita in the United States. Four billions and a little more is all the money that you permit to circulate amongst one hundred and odd millions of people. The business, speculative and otherwise, of New York require a billion and more for its ordinary transactions; and now what is happening? Why, Mr. J. Pierpont Morgan is loaning large sums of money to England and France, and the American supply of money is being drained out. Giannini, of California, has a branch system in Rome, Italy, and he is sending money over there; so these foreign connections are taking money out of the channels of business that should stay here at home to answer the needs of our own people. And here you Republicans have a bill pending in Congress to permit Mr. Mellon to give back to the big and special favorites of the Republican Party a refund of \$175,000,000 more, and we have not a single scintilla of testimony, not one line of reason for refunding that money, not the name of a single person to whom it is to be given. He does not tell us why he is handing it out to them.

My! my! what are we coming to in the Senate of the United States; men sent here supposed to be competent to represent their sovereign States sitting about with their arms folded and permitting Mellon to engineer through Congress a bill carrying \$175,000,000 to be deposited down there and handed out to these favorites at his will and pleasure.

Senators, it is outrageous. It is scandalously wrong. It ought not to be. The Senate ought to require him to give the list of names, with the amounts opposite the names, with the judgments rendered or the reasons why the refund is made. Is that asking too much? Have we reached the time when we can not require that much of the dreaded money power of the Nation? Have we become truckling cowards, and do we fear these people so much that we dare not lift our hand against them and their miserable and criminal tactics? Mr. President, before that bill is passed I want a roll call on it.

Let me say this in conclusion. My time is about up.

Mr. President, I am protesting against the passage of this measure because I am afraid of some of its provisions. It has some very dangerous provisions in it. I wish we had a chance to discuss it and amend it; but the Senator from Connecticut [Mr. McLEAN], I understand, objected to-day to the Senator from Nebraska [Mr. HOWELL] even offering an amendment, so we are tied hand and foot. The steam roller is under way. The decree has gone forth. The money lords have spoken. The Republican leaders are demanding that they have their way, that the bill must become the law and no amendment can be offered. God knows it ought to be amended. You have stripped it of the features that made it at all fair and just; and it stands here now just as the big banking interests want it, and you have decided to put it over. You will hear from it long after this Congress has adjourned and this system begins to fasten its octopus tentacles about the throat of inde-

pendent banks and State banks and the interests of the commercial and agricultural business of the people that they now serve. I shall vote against its passage.

RECESS

Mr. CURTIS. I move that the Senate take a recess until 12 o'clock to-morrow.

The motion was agreed to; and (at 4 o'clock and 38 minutes p. m.) the Senate took a recess until to-morrow, Wednesday, February 16, 1927, at 12 o'clock meridian.

HOUSE OF REPRESENTATIVES

TUESDAY, February 15, 1927

The House met at 12 o'clock noon.

The Chaplain, Rev. James Shera Montgomery, D. D., offered the following prayer:

Our prayer unto Thee, O God, is: I will lift mine eyes unto the hills from whence my help shall come; my help cometh from the Lord which made heaven and earth. Behold, He that keepeth Israel shall neither slumber nor sleep. O there is one God who is the Father of us all, who is above all, over all, in all, and blessed for evermore. Come Thou and stoop to our needs, minister to our weakness, light the lamp of hope, lead the way. Extend our horizon; may it expand and widen until at the last we shall behold that city that hath foundations, whose builder and maker is God. In the name of Jesus of Nazareth we pray. Amen.

The Journal of the proceedings of yesterday was read and approved.

MESSAGE FROM THE SENATE

A message from the Senate, by Mr. Craven, its principal clerk, announced that the Senate had passed with amendments House bill of the following title, in which the concurrence of the House is requested:

H. R. 13446. An act to restore the rate of 1 cent each to private mailing or post cards.

The message also announced that the Senate had passed Senate concurrent resolution and Senate resolution of the following titles, in which the concurrence of the House is requested:

Senate Concurrent Resolution 27

Concurrent resolution relative to the employment of Federal prisoners in United States penitentiaries, United States Industrial Home for Women, and the United States Industrial Reformatory.

Senate Resolution 351

Resolved, That the Senate has heard with profound sorrow the announcement of the death of Hon. AMBROSE E. B. STEPHENS, late a Representative from the State of Ohio.

Resolved, That a committee of 11 Senators be appointed by the Vice President to join the committee appointed on the part of the House of Representatives to attend the funeral of the deceased Representative.

Resolved, That the Secretary communicate these resolutions to the House of Representatives and transmit a copy thereof to the family of the deceased.

Resolved, That as a further mark of respect to the memory of the deceased the Senate do now adjourn.

Pursuant to the foregoing resolution, the Vice President appointed Mr. WILLIS, Mr. FESS, Mr. SHORTRIDGE, Mr. TRAMMELL, Mr. COPELAND, Mr. ROBINSON of Indiana, Mr. FERRIS, Mr. DENEEN, Mr. ERNST, Mr. DILL, and Mr. NEELY as members of the committee on the part of the Senate to attend the funeral of the deceased.

HOUSE ENROLLED BILLS SIGNED

Mr. CAMPBELL, from the Committee on Enrolled Bills, reported that that committee had examined and found truly enrolled House bills of the following titles, when the Speaker signed the same:

H. R. 1231. An act for the relief of Mary Moore;

H. R. 3432. An act for the relief of Joel C. Clore; and

H. R. 9319. An act to authorize certain officers of the United States Navy to accept from the Republic of Chile the Order of Merit, first class, and the Order of Merit, second class.

SENATE CONCURRENT RESOLUTION REFERRED

Under clause 2 of Rule XXIV, Senate concurrent resolution of the following title was taken from the Speaker's table and referred to the Committee on Rules.

Senate Concurrent Resolution 27

Concurrent resolution relative to the employment of Federal prisoners in the United States penitentiaries, United States Industrial Home for Women, and the United States Industrial Reformatory.